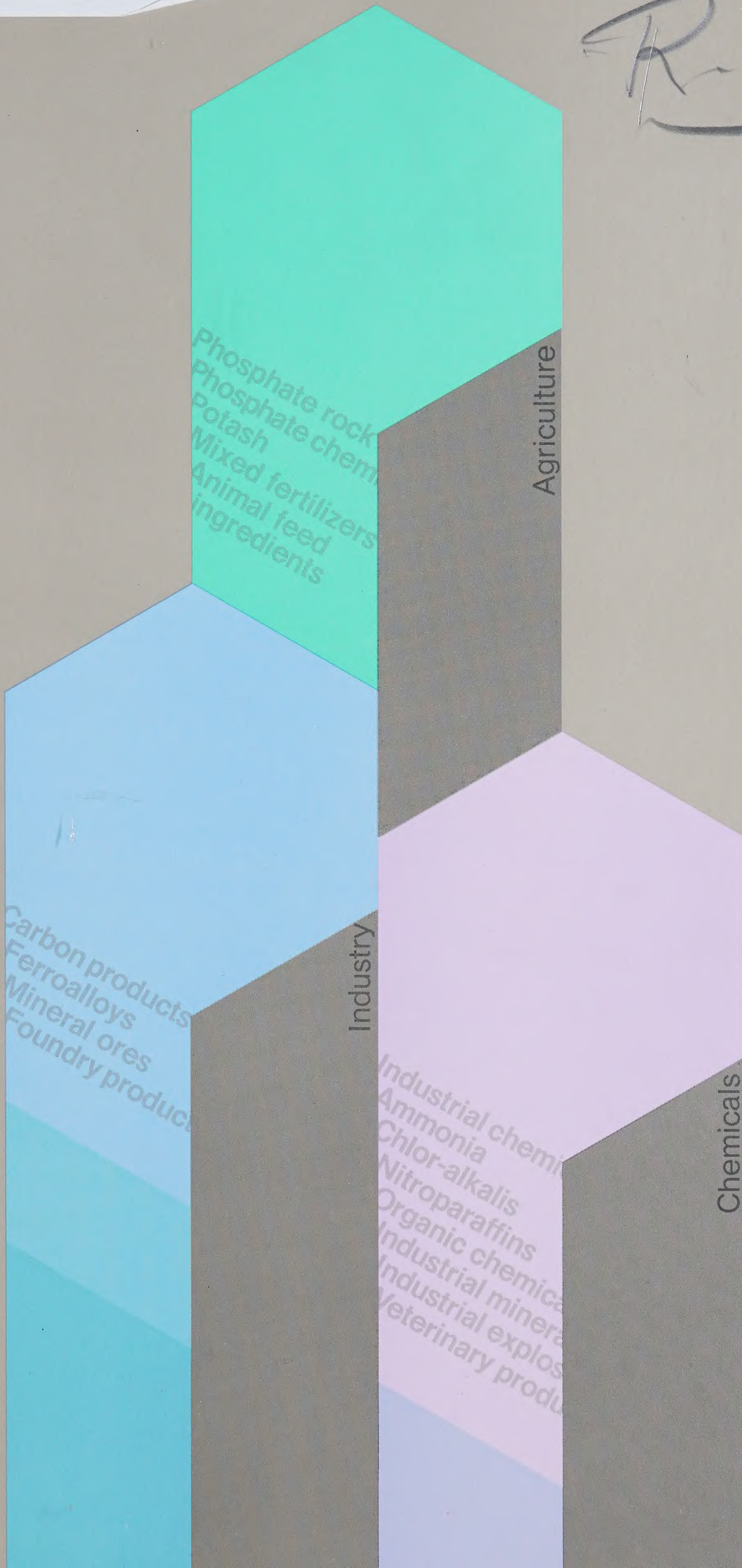
International Minerals & Chemical Corporation

1976 Annual Report



The Year at a Glance

IMC's Agriculture Group, the Corporation's leading business area, earned $115.1 million in fiscal 1976 on $653.6 million in sales, accounting for 85 percent of the company's earnings of $135.4 million. Return on investment for agriculture averaged 22.2 percent, with a contribution to earnings per primary share of $6.59. Earnings came principally from production and sale of fertilizer materials, finished fertilizers, and animal feed ingredients.

The IMC Industry Group earned $13.9 million on $351.2 million in sales, contributing 10 percent of the company's earnings. Return on investment reached 11.7 percent, with earnings per primary share of 79 cents. Earnings came principally from production and marketing of carbon products, ferroalloys and metals, and foundry products.

IMC Chemical Group, Inc., created in May of 1976, earned $6.4 million on $255.2 million in sales, providing 5 percent of IMC's earnings. Return on investment came to 2.1 percent, with earnings per primary share of 37 cents. Earnings came principally from production and sale of ammonia and ammonia derivatives, chlor-alkalis, feldspathic products, and other basic and specialty chemicals.

The IMC Resource Development Group, charged with exploration for and development of new deposits of minerals and metals, was principally involved in Canadian projects in 1976. The Group's principal spending was in the exploration of a salt and potash prospect in New Brunswick and the discovery and first phase feasibility study of a phosphate deposit in Ontario. The year's costs in New Brunswick were $2 million and in Ontario $1.4 million.

A two-year comparison of sales and earnings in agriculture, chemicals, and industry:

	1976	1975
Sales (In millions)		
Agriculture	$ 653.6	$ 748.6
Chemicals	255.2	120.4
Industry	351.2	433.9
	$1,260.0	$1,302.9
Earnings (In millions)*		
Agriculture	$ 115.1	$ 131.5
Chemicals	6.4	12.2
Industry	13.9	18.1
	$ 135.4	$ 161.8
Earnings per primary share*		
Agriculture	$ 6.59	$ 8.05
Chemicals	.37	.75
Industry	.79	1.11
	$ 7.75	$ 9.91

*In 1975, before an extraordinary tax credit.

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Annual Meeting

Shareholders are cordially invited to attend the Annual Meeting at the Curtis Hixon Convention Center, 600 Ashley Street, Tampa, Florida, at 10:00 a.m. Eastern Daylight Time, on Wednesday, October 6, 1976. A formal notice of the meeting, together with a proxy statement and proxy card, accompanies this Annual Report to shareholders.

Form 10-K Annual Report

A copy of IMC's Form 10-K Annual Report, expected to be filed with the Securities and Exchange Commission late in September, 1976, will be available on request from the Secretary of the Corporation at IMC Plaza, Libertyville, Illinois 60048.

1976 Highlights

(Dollars in millions except per share amounts) Years ended June 30	1976	1975
Net sales	**$1,260.0**	$1,302.9
Earnings before extraordinary item	**135.4**	161.8
Net earnings	**135.4**	166.0
Shareholders' equity	**580.7**	457.9
Return on shareholders' equity*	**23.3%**	35.3%
Primary earnings per share		
Before extraordinary item	**$ 7.75**	$ 9.91
Net	**7.75**	10.17
Fully diluted earnings per share		
Before extraordinary item	**7.39**	8.90
Net	**7.39**	9.13
Common dividends paid per share	**2.10**	1.38
Book value per share	**32.00**	25.95

*Based on earnings before extraordinary item.

Fourth Quarter

(See discussion on page 24.)

	1976	1975
Net sales	**$333.8**	$331.8
Earnings before income taxes and extraordinary item	**40.3**	64.2
Provision for income taxes	**10.9**	20.8
Earnings before extraordinary item	**29.4**	43.4
Extraordinary tax credit	—	.6
Net earnings	**29.4**	44.0
Primary earnings per share		
Before extraordinary item	**$ 1.66**	$ 2.61
Net	**1.66**	2.64
Fully diluted earnings per share		
Before extraordinary item	**1.61**	2.39
Net	**1.61**	2.42

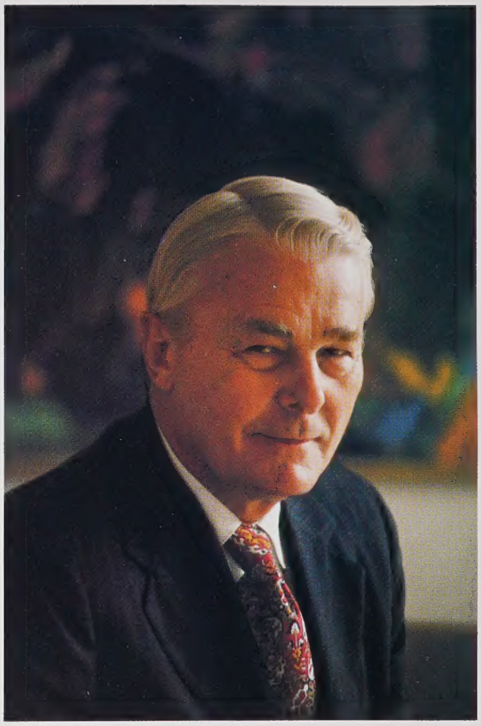
To Our Shareholders:

Nineteen seventy-six was another very good year for IMC. Earnings averaged 11 percent on sales and 23 percent on shareholders' equity.

The foregoing is history; only what is going to happen in the future is important now.

We enter fiscal 1977 a different company than we were just one year ago. The Commercial Solvents and Sobin Chemicals acquisitions have developed into a cohesive and significant chemicals complex with more than $250 million in annual sales. And the IMC Industry Group has been brought together into one unit with sales of $350 million. These two groups give IMC important earnings potential over and above our major business, fertilizer.

The year starts with an adequate supply of all fertilizer materials and capacity exceeds demand for most products. While this circumstance is not unique in our industrial society and need not signal troublesome times, the easy days we enjoyed for the past two years have ended.



Richard A. Lenon, President and Chief Executive Officer

Fertilizer materials are basic commodities with typical volatility characteristics, but the volatility in fertilizers involves supply, not basic demand. From 1964 to 1974 world fertilizer usage grew at a continuous rate of 6 percent to 11 percent per year. When demand began to catch up with supply, the U.S. industry responded with more than $4 billion in new plant construction. Regrettably, the economics of the business does not permit small units or gradual expansion; so the inevitable happened—inventories accumulated and prices declined.

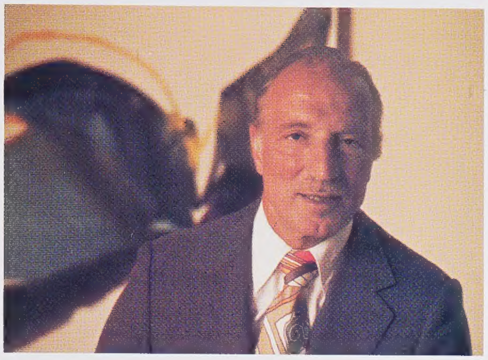
Under such circumstances, predictions are extremely difficult, and may be very inaccurate. However, at this time it appears that declines in prices which occurred in the second half of fiscal 1976, coupled with continuing increases in costs, will erode IMC's fertilizer gross margins by approximately $70 million in the 1977 fiscal year.

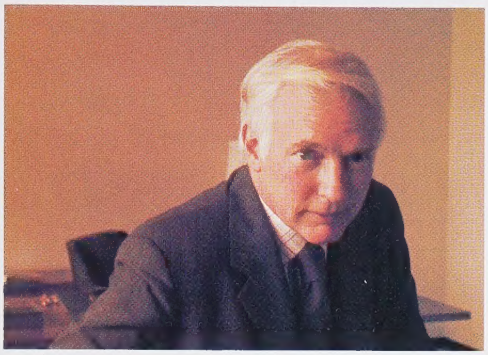
Since the full impact of price declines did not come until the second half of fiscal 1976, our results in the first and second quarters of fiscal 1977 will be lower than in the same 1976 periods. Third and fourth quarter comparisons should be more favorable.

We have been responding to market adversities with substantial cutbacks in production; as a result, IMC finished the year with total fertilizer inventories of $42 million, compared with $54 million in the previous year. While the inventory of no single product is currently burdensome, some production adjustments continue to be made. The probable impact of these production adjustments on costs has been taken into consideration in the gross margin thoughts discussed above.

Over the past three years, IMC has spent more than $300 million on capital projects in our agricultural business, including $106 million for a concentrated phosphate chemicals plant in Florida. This plant is now fully operational, but it is not contributing significantly to earnings because it serves that segment of the fertilizer market most troubled by excess capacity. Equally important, the company spent $46 million expanding phosphate rock production in Florida. This was a timely expenditure. Planned additional profit came in on schedule and will continue over the various lives of the properties involved. The remaining $157 million in capital expenditures consisted principally of sums spent to bring all our agricultural plants up to mint condition, almost always with modest additions to capacity. Obviously, we also improved reliability, stemmed increases in controllable costs, and trimmed out problem areas. We have large and low-cost operations.

At current price levels, the fertilizer industry is shutting down marginal opera-





Anthony E. Cascino, Executive Vice President, Agriculture *(Above)*

George D. Kennedy, Executive Vice President, Industry and Business Development *(Below)*

tions and deferring or canceling planned expansion. It follows that history should repeat itself; that is, demand will catch up with static supply. IMC's operations, including the Florida phosphate chemicals plant, are ready for that day. Specifically, it seems reasonable to expect a strong recovery in fertilizer earnings beginning in fiscal 1978.

In our chemicals business, capital expenditures and investments over the last three years have totaled $274 million. The full acquisition of Commercial Solvents Corporation and the completion of the acquisition of Sobin Chemicals, Inc., in the three-year period cost $146 million. Another $84 million has been spent for work in progress on a second large ammonia plant and for the purchase of a block of natural gas and oil property. With the exception of the Sobin part of the business, chemicals have not yet contributed significantly to IMC earnings. However, this fiscal year the second ammonia plant will come on stream, and this production, plus improved operation of our existing ammonia plant and much better economic conditions, will start delivery of the earnings we expect from our chemical effort.

In our industrial business, capital expenditures over the three years have totaled a modest $53 million. Most of the effort was focused on developing production and marketing in growth areas, along with terminating a number of miscellaneous activities. During fiscal 1976 construction began on a $32 million joint-venture ferrosilicon plant which will contribute to earnings in the current year.

For all IMC operations, capital spending for fiscal 1977 is expected to total $140 million, with $39 million committed to the completion of the second ammonia plant and IMC's share of the ferrosilicon operation. Another $20 million will be spent on starting construction of a new $36 million animal feed phosphate facility.

We plan to continue our practice of forecasting the year's earnings at the Annual Meeting of shareholders in October, but very preliminary estimates indicate a decline in fiscal 1977 earnings in the range of 20 percent to 25 percent, with more favorable trends beginning late in the year.

Of special note in the earnings picture: for the first time, operations other than the fertilizer business will be significant in the scheme of things. We expect that the chemicals and industrial businesses will contribute from 40 to 50 percent of fiscal 1977 earnings. These two businesses are illustrated beginning on page 12.

As stated at the last two Annual Meetings, a return of 15 percent to 20 percent on shareholders' equity seems to be a reasonable target for IMC. Even though fiscal 1977 will be a year of substantial adversity in the fertilizer area, we expect to hold in that range.

Our responses to corporate social responsibilities are discussed later in this Annual Report. Last year we presented in some detail our efforts to help increase world food production. This year there is a special report on pages 8 through 10 commenting on IMC and the environment.

Our sensitivity to social obligations, of course, extends beyond hunger and environmental protection, and comments on other matters are planned in the future.

While the period of extraordinary profits was too brief to encourage lack of attention to profit responsibilities, the sudden change in the business climate brings new demands and pressures. IMC's employees are responding nobly to the challenge, and for this I express my appreciation.

Sincerely,

R A Lenon

August 16, 1976

Operating Review

Agriculture

The $653.6 million in sales and $187.7 million in pre-tax earnings (earnings before income taxes) recorded by IMC's agricultural operations in fiscal 1976 compared with 1975's $748.6 million in sales and $216.3 million in pre-tax earnings.

Nineteen seventy-six results marked a return to more normal conditions after some 24 months of unprecedented fertilizer demand, artificially stimulated by shortages and the fear of shortages. By mid-year, shortage psychology and new capacity had filled supply pipelines from mine to farm, domestic and offshore. Later, production cutbacks and an excellent spring planting season started the clearing necessary for improvement of the business.

American farmers planted 345 million acres in fiscal 1976, up five million acres from the previous year and the highest acreage planted in 20 years. An estimated 45 million tons of fertilizer went onto the ground across the United States during the year, a 7 percent increase over the previous year and a scant 3 percent below the record level of the 1973-74 planting year.

IMC shipments and production of major agricultural products in 1975 and 1976 were:

	Shipments		Production	
(In millions of tons)	1976	1975	1976	1975
Phosphate rock	11.6	11.6	12.1	11.1
Concentrated phosphates	1.4	.8	1.3	.7
Potash	2.8	3.3	2.7	3.7
Mixed fertilizers	1.1	1.2	1.1	1.2

Contributions to pre-tax earnings by agricultural products were:

(Dollars in millions)	1976	1975
Phosphate rock	$122.0	$120.2
Concentrated phosphates	20.4	21.1
Potash	41.3	51.8
Mixed fertilizers	5.6	18.3
Other	(1.6)	4.9
Total pre-tax earnings	$187.7	$216.3

Among significant events and developments in IMC's 1976 agricultural operations:

Phosphate Rock

> Phosphate rock prices, domestic and export, averaged about $22 per ton, compared with $20 per ton for fiscal 1975. Prices on new business secured in the last half of the year declined approximately 26 percent.

> Six and a half million tons of the domestic sales of phosphate rock were sold on long-term contracts (agreements of more than a year's duration) with escalations for cost increases. While export business is more profitable than domestic, the price spread is distorted by differences in grades, sales terms and conditions, and the benefits in long-term arrangements.

> The IMC Resource Development Group, following up on its discovery of phosphate-bearing rock in northern Ontario, completed a first-phase feasibility study which confirmed initial projections of a phosphate presence. Further development will depend upon additional technical and marketing studies.

> Rock inventories at year-end were at 2.7 million tons, compared with 1.9 million tons at the close of fiscal 1975. The 1976 tonnages approximate the optimum working stocks.

Potash

> IMC produced 2.1 million product tons of muriate of potash, 1.9 million tons in Saskatchewan and 213,000 tons in New Mexico; specialty potash from New Mexico accounted for another 542,000 product tons.

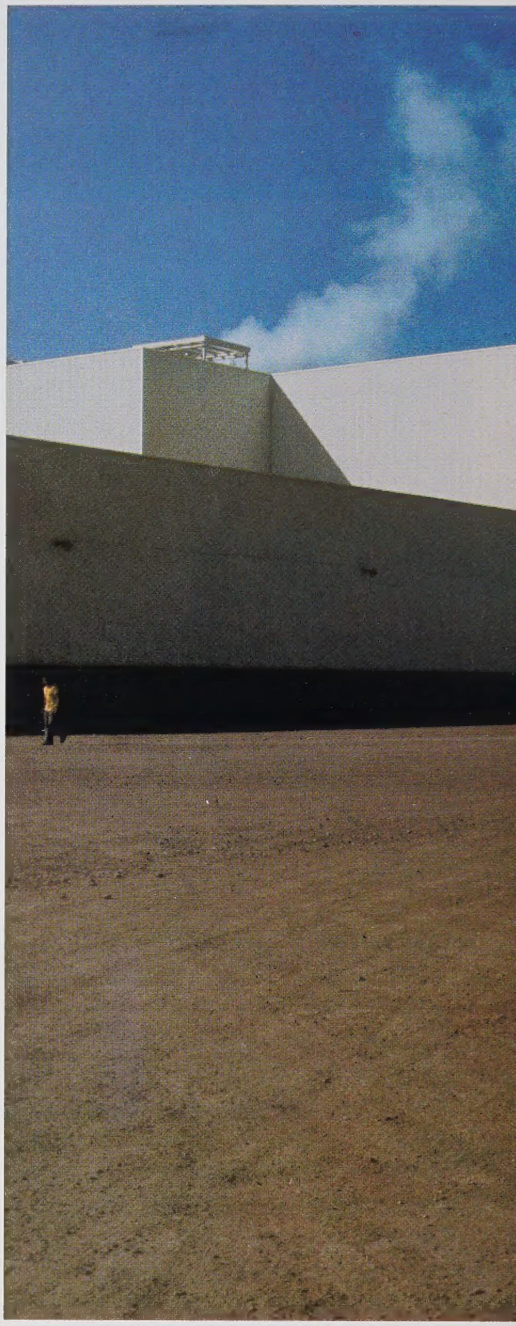
> With production curtailed during most of the year, muriate of potash inventories stood at 267,000 tons at the end of fiscal 1976, compared with 348,000 tons at the close of 1975.

> Across all potash products, the average selling price was $46 per ton in fiscal 1976 and $40 per ton in 1975.

> Total Canadian taxes on potash averaged $21 per ton in fiscal 1976, compared with $19 per ton in 1975.

> The IMC Resource Development Group intersected potash in four of six test holes drilled in its exploration of the potash and salt prospect in New Brunswick; substantial additional drilling, analysis, and process testing must precede any decisions on economic feasibility.

> The Saskatchewan government moved ahead with its plans to acquire "some or all" of the province's potash mines; a special update on the situation begins on the next page.



IMC's Saskatchewan potash operations turned out 1.9 million tons of product in fiscal 1976, more than any other private producer in the world.

Concentrated Phosphates

> A new $106 million phosphate chemicals complex came on stream in Florida in very troubled times, but contributed modestly to operating profit. Most important, the total complex has been tested operationally, and all units are ready to produce above design when market conditions permit.

> Concentrated phosphate inventories were at 103,000 tons compared with 1975's 127,000 tons. Here, as in phosphate rock, the 1976 tonnages approximate the optimum working stock.

> New $36 million animal feed ingredients facility is scheduled for construction to produce the company's line of dicalcium phosphate products; the present dicalcium phosphate plant is to be sold.

> The company produced 333,000 tons of animal feed phosphates in 1976, a 12 percent decrease from 1975's 377,000 tons.

Mixed Fertilizers

> Sales of Super Rainbow premium mixed fertilizers were up sharply for the year, recording a 31 percent increase over the previous year and accounting for 60 percent of IMC's branded mixed goods tonnage.

> Mixed goods moved at excellent levels, with inventories at record lows of less than 3 percent of sales at year's end.

Future Considerations

While exact figures on fiscal 1976 fertilizer consumption at home and abroad will not be available for some time, good sales results are evidenced by the indicated 7 percent increase in the United States and reassuring turnarounds in the export market. With some marginal plants closed and normal maintenance periods extended, this sales activity brought June 30, 1976, inventories of concentrated phosphates and most nitrogen products into reasonable relationship with sales prospects.

Producers' inventories of potash were high at year-end, but field inventories were low. This situation indicates that producers' shipments should increase briskly as fiscal 1977 progresses, and in July, an historically slow month for fertilizer materials, IMC's potash sales were sharply ahead of the same year-ago month—190,000 tons in July, 1976, and 65,000 tons in July, 1975.

Producers' phosphate rock inventories will get back into balance with recovery in the concentrated phosphate market.

Although excess capacity exists in the fertilizer industry, fiscal 1977 starts with the prospect that farmers everywhere will plant "fence to fence" in the year ahead; in the United States, commodity price levels provide the incentive for large applications of all fertilizer products.

In animal feed ingredients, a sales tonnage increase of 15 percent to 17 percent is anticipated for fiscal 1977, and an increase of another 8 percent in fiscal 1978.

IMC's mix of long-term contracts and spot sales efforts is serving the company well. While some problem contracts remain on the books, substantial improvements were negotiated in fiscal 1976. Expirations and other negotiations will occur this year and next.

Events in Saskatchewan

The company has, in numerous reports to shareholders, discussed its relations with the government of Saskatchewan.

In view of the magnitude of the investment and the importance of Canadian potash in our long-term plans, a chronology of significant events follows.

1970 Saskatchewan Liberal Party government imposes potash conservation regulations, which include floor price and production controls.

1971 New Democratic Party comes into office in Saskatchewan and continues potash regulations.

1972 One producer enters suit challenging constitutionality of 1970 conservation regulations; Canadian federal government joins in suit.

Saskatchewan government imposes proration fee of 60 cents per ton of potash produced.

1973 Prices exceed minimum floor price.

Proration fee is doubled to $1.20.

1974 Provincial government institutes complicated reserve tax, and federal government changes its income tax laws to deny deductibility of all provincial mining taxes, bringing effective total tax rate for Saskatchewan potash industry to as much as 97 percent at 1974 price levels.

All producers granted production licenses for 100 percent of rated capacity; floor price regulations terminated.

1975 Conservation regulations found unconstitutional by trial court (currently on appeal by provincial government).

Province allows royalties and mining taxes as a deduction for provincial income tax determination; total effective tax rate remains in excess of 90 percent.

Province amends reserve tax regulations to limit total provincial/federal incremental taxes to about 90 percent of any increase in selling price, to require producers to file detailed financial information, and to permit the government to inspect the property, books, and records of the producers; total effective tax rate remains in excess of 78 percent.

Eleven companies, including IMC-Canada, bring suit challenging constitutionality of reserve tax (case still in courts).

Proration fee ($1.20 per ton) constitutionality challenged by 10 companies, including IMC-Canada (suit still in courts).

Potash producers release consolidated industry data showing only 5.6 percent return on industry investment in fiscal 1975.

1976 Provincial government passes legislation to permit expropriation of private potash assets.

Producers provide financial data requested by provincial government.

Nine companies, including IMC-Canada, bring a third suit against Saskatchewan government, alleging taxes violate early contracts which fixed level of production royalties until 1981.

Province announces purchase of the assets of one producer; two other producers' assets reported to be in process of evaluation. (IMC-Canada is not a willing seller, and has not been approached by the government.)

The problems resulting from this long history of deteriorating relationships are not resolved by provincial acquisition of one or more potash mines. It is hoped that government-industry discussions, reopened in August, will lead to a partial if not a complete resolution of these differences.

Key Managers: Agriculture Group

Anthony E. Cascino *IMC Executive Office*
Judson H. Drewry *Operations*
Sidney T. Keel *Marketing*
Thomas J. Regan *Materials Management*
Oscar T. Stutsman *Finance*

Marketing
Harry L. Carroll *Domestic Marketing*
Donald E. Phillips *Mixed Fertilizers*
Frederick J. Blesi *Product Management and Development*
T. Jackson Cleghorn *Florida Real Estate*
Erik C. Ekedahl *Asia/Pacific Sales*
Herbert T. Peeler *Animal Health and Nutrition*
Luis J. Vergne *Overseas Sales*
Christopher C. Williams *Domestic Sales*

Operations
Billie B. Turner *Florida Operations*
Allen P. Blackmore *Ontario Phosphate Operations*
Colin A. Campbell *Florida Minerals Operations*
Thomas L. Craig *Florida Chemicals Operations*
Dee L. Dibble *Operations Administration*
Robert W. Hougland *Carlsbad Potash Operations*
William J. Huston *Esterhazy Potash Operations*

Industry

IMC's industrial materials business turned in 1976 pre-tax earnings of $25.5 million on sales of $351.2 million. Comparable 1975 figures were $39 million in pre-tax earnings and $433.9 million in sales.

The year began with primary markets for IMC's industrial materials at their lowest ebb since World War II, causing a year-to-year sales decline of 20 percent. Sharply reduced output by the world steel and aluminum industries particularly affected sales of petroleum coke.

Markets improved generally throughout the year, strongly in foundry products where a sparkling recovery by the auto industry generated sales that more than offset reduced volume to a laggard non-automotive foundry market.

In ferroalloys and metals, market shares were increased in some key products, and last-half sales of ferrosilicon and ferrochrome responded to production upturns in the steel, stainless steel, and auto industries. Other significant events and developments in 1976:

> The industrial materials businesses, after three years of development, were organized as the IMC Industry Group (see pages 12 through 17).

> Petroleum coke sales decreased by $43 million in 1976 compared with 1975.

New phosphate chemicals plant in Florida is largest and most modern in world, with annual design capacity of 600,000 tons of P_2O_5 (available phosphate).

> Construction began on a 75,000-ton-a-year ferrosilicon furnace at Bridgeport, Alabama; the project, a 75 percent IMC-owned joint venture with Allegheny Ludlum Industries, is on schedule toward completion next spring.
> An expansion project at Bakersfield, California, will produce fluid calcined coke to serve select markets.
> Foundry products operations in the Detroit area were consolidated, doubling capacity as well as providing room for additional expansion.
> Expansion of a South African chrome mine continued on schedule toward completion early in calendar 1978; will boost annual capacity to 500,000 tons from current 300,000 tons.
> New lines of foundry resins and compatible Redford core- and mold-making machines were introduced.
> A new plant came on stream at Rockwood, Michigan, designed to produce resin-coated foundry shell sands—a new product line.
> IMC's Oliflux, a fluxing and cleansing agent used in the production of steel, moved from the testing stage into the marketplace.

Key Managers: IMC Industry Group

George B. Howell *President*
Anton F. Kuzdas *Executive Vice President*
Alan B. Wagner *Administration*
John L. Dentzer *Finance*

Business Managers
George T. Baebler *Foundry Products*
Nugent Comyn *Lavino S. A.*
Joseph E. Doninger *McWhorter Resins*
Eric Lomnitz *Continental Ore Europe Ltd.*
John T. Lumis *Carbon Products*
I. David Paley *Ferroalloys and Metals*
Henry Siegmann *Minera Continental S. A.*

Chemicals

IMC's chemicals business, after a first-half ammonia plant breakdown and nitroparaffin production problems, showed pre-tax earnings of only $12.4 million for the year on $255.2 million in sales. The 1975 figures, $19.5 million in pre-tax earnings and $120.4 million in sales, are not comparable with 1976's because IMC did not fully own either Sobin Chemicals or Commercial Solvents for all of fiscal 1975. One hundred percent of Sobin was owned for four of the 12 months, and 100 percent of Commercial Solvents for two months. If IMC had owned both companies for the whole 12 months, the 1975 pre-tax earnings of the chemicals business would have been about $43 million on $268.8 million in sales.

Ammonia and ammonia-derived products constitute a major part of IMC's chemicals business. Production is back on track, and the completion of a second ammonia plant next spring will more than double IMC capacity, bringing the annual capacity total to about 730,000 tons.

Of this total output, approximately 98 percent will be sold on contracts or destined for internal consumption; 175,000 tons of this total, committed at very low prices many years ago, will become available for sale at market prices late in 1977.

During the year IMC enhanced its existing supplies of natural gas, the raw material for ammonia production, with the $38.5 million purchase of gas and oil producing properties located principally in Louisiana. The purchase was made by wholly-owned IMC Exploration Company.

The acquisition added reserves now estimated at 71 billion cubic feet of gas and five million barrels of oil and condensate. IMC now has ownership or control, including long-term contracts, of substantially all its gas requirements for the existing and new ammonia plants through the planned pay-out period on these properties.

At the end of fiscal 1976 IMC owned gas reserves in Louisiana totaling 112 billion cubic feet, together with five million barrels of natural gas liquids, and controlled an additional 111 billion cubic feet of reserves made up of royalty gas and gas on contract. This gives IMC 223 billion cubic feet of gas reserves, which are supplemented by 55 million cubic feet of gas per day under long-term contracts with gas transmission companies.

Exploration and development spending totaled $7.4 million in 1976, and IMC Exploration Company continues the hunt for additional hydrocarbon reserves.

Other significant events and developments in the chemicals business in 1976:
> The chemicals business was consolidated as a wholly-owned subsidiary, IMC Chemical Group, Inc. (see pages 18 through 23).
> A three-month shutdown of ammonia operations limited the year's production to 279,000 tons, with sales at $18 million; current ammonia production is above annual capacity of about 340,000 tons.

> A new business area, Chemicals International, was created to carry on international marketing; the business is U. S.-headquartered, with offices in London and Hong Kong.
> NYMA, N.V., a Dutch manufacturer of specialty chemicals, was acquired for $4.5 million.
> Two old feldspar production plants in North Carolina were closed and their production transferred to an efficient new complex.
> For the first time, bulk shipments of nepheline syenite and high purity Iota quartz penetrated the European market.
> Demand was particularly strong for methylamines, carbon black, and feldspathic materials, with operations running at capacity or near-capacity.
> Chlor-alkali sales to the pulp and paper industries ran 16 percent ahead of fiscal 1975.
> Two of the Chemical Group's four industrial explosives plants were closed during the year, with operations consolidated and expanded at the two remaining plants; closings did not affect capacity, and the consolidation created production efficiencies.
> Ralgro, an anabolic growth-promoting agent for beef cattle and lambs, gained further acceptance by professional cattle raisers, and increased its market share.
> Swine and poultry markets for veterinary products continued strong.
> Most pharmaceutical operations in Europe and Latin America, victims of currency devaluations and economic difficulties, were divested during the year at a modest gain.

Key Managers: IMC Chemical Group, Inc.

William S. Leonhardt *Chairman*
Marvin B. Gillis *President and Chief Executive Officer*
Julian M. Sobin *Executive Vice President*
Lester G. Sobin *Industrial and Organic Chemicals*
Graham W. McMillan *Biochemicals*
Roger E. Secrist *Hydrocarbons*
Ted R. Bialek *Finance*

Business Managers
O. Wayne Chandler *Nitroparaffins*
Scott S. Chandler *Veterinary Products*
Harold B. Conant *Chemicals International*
Frank E. Daley *Electrochemicals*
George L. Griffith, Jr. *Trojan Explosives*
Lyle A. Holmes *Industrial Minerals*
Robert E. Jones, Jr. *Petrochemicals*
Robert B. Kayser *Operations Planning, Industrial and Organic Chemicals*
Gene E. Roark *Gas and Oil*
James J. Roveda *Industrial Chemicals*
Keith S. Wood *Chemicals International*
James A. Wylie *Organic Chemicals*

IMC and the Environment

IMC capital expenditures to protect the environment have increased almost sixfold in the last five years—from $3.5 million in 1972 to $20 million in fiscal 1976.

In 1976 we spent $4.3 million at new or expanded operations and $15.8 million at existing operations.

Moreover, additional capital outlays for environmental protection during the next three years are expected to reach a total of some $67 million.
The breakdown:
> 1977: $32 million.
> 1978: $22 million.
> 1979: $13 million.
These expenditures will be for:
> Air emission control.
> Wastewater purification.
> Land reclamation.
> Solid wastes disposal.

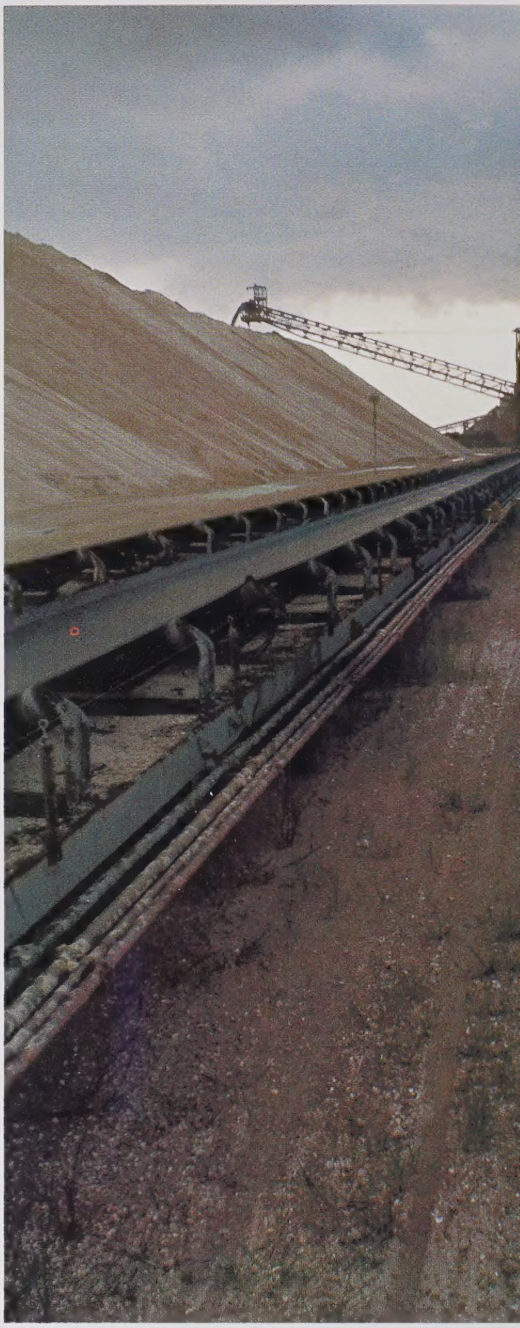
The figures include capital expenditures at existing operations ($53 million) and at operations under construction or planned for construction ($14 million), but they do not take into account any capital costs that may arise through acquisitions or the enactment of new environmental protection laws.

The costs of operating our environmental control facilities are also on the rise, exceeding $10 million in 1976.

Most of these expenditures are in direct response to the provisions of the U.S. Clean Air Act of 1970, the U.S. Water Pollution Control Act Amendments of 1972, and the air and water protection regulations of the various states and Canadian provinces in which IMC and its subsidiaries operate.

Our effort is directed by appropriate key personnel throughout the company's operations and supported by a corporate staff of eight environmental and technical specialists. We are making progress, but we have problems.

Paradoxically, in Florida—where we have major operations that have achieved either full compliance or more than full compliance—we are confronted by public expressions of concern over the phosphate industry's impact on the environment.



From IMC's ocean terminal near Tampa, phosphate-laden ships carry some five million tons of product each year to domestic and world markets.

Fear has been voiced that:
> The industry may be lowering water tables.
> Expansion into new mining areas may contaminate air in centers of population.
> Disturbance of uranium in the phosphate ore may result in dangerous levels of radiation.
> Reclamation of mined-out land is not proceeding fast enough.
> Dams around artificial ponds may rupture and pollute waterways with phosphatic clay wastes.

Although current local, state, and federal environmental laws rigorously regulate the phosphate producers, on May 4, 1976, the President's Council on Environmental Quality announced plans for preparation by the Environmental Protection Agency (EPA) of a Federal Environmental Impact Statement on the current and projected development of the phosphate industry in central Florida. The announcement stated that the plans will not establish a moratorium on existing phosphate mining in the region.

Next to tourism, phosphate is Florida's largest industry, providing direct jobs for more than 11,000 men and women, meeting an annual payroll of $137 million, paying about $40 million in taxes at all levels of government, and supplying the phosphate rock and chemicals needed by U. S. and world agriculture. Historically, the state's producers have drawn on the resources of the American Mining Congress, the Florida Phosphate Council, and The Fertilizer Institute in seeking solutions to environmental problems. The effort has paid off. For example, in IMC's Florida operations:
> Our $106 million phosphate chemicals complex, which came on stream in 1975, is in full compliance with all current standards and in advance compliance with EPA's 1983 goal of zero discharge of water.
> With state and federal authorities, we have developed a "recharge well" system of water conservation. These are wells that work in reverse—they drain rainfall down into the limestone far below the surface water table, replenishing a natural reservoir with water that otherwise would be lost through surface runoff.
> The necessary equipment for dust control at our rock operations has been installed to keep us in full compliance with all regulations.
> We are reclaiming mined-out land at a rate greater than our mining operations use.

Additionally, the industry continues to seek improvement in disposing of phosphatic clay wastes, which absorb water in the production of phosphate rock. The current practice is to use artificial ponds in which the natural forces of sun, air, and vegetation gradually remove the water in the clay. But the producers, individually and in cooperation with the U. S. Bureau of Mines, are pursuing viable alternatives in an ongoing research program. A better way to dispose of these wastes is a major unresolved problem in the Florida phosphate industry.

While IMC has no immediate plans to develop new mining properties in Florida, the company holds 30,400 acres of phosphate rock reserves located approximately 40 miles south of present operations. During fiscal 1976, sufficient exploration and development were completed to indicate reserves of 120 million tons. Although more investigation has to be made, these new areas can provide a place to go when present workings are depleted, in 10 to 15 years at present production rates. Accordingly, IMC is deeply committed to all programs that will make the mining of phosphate compatible with the many other interests in the area. (IMC has phosphate properties in the western United States and in Australia on which no work was done last year. A Canadian phosphate first-phase feasibility study is discussed on page 4.)

We have also moved ahead with environmental protection elsewhere in our operations across the United States and Canada. Progress has been good—many more problems solved than unsolved. Major 1976 problems:
> EPA notices of air emission violations at our Sterlington, Louisiana, petrochemicals complex; problem resolved by new construction and installation of new scrubber technology.
> EPA notice of violation and civil suit for wastewater discharge at Sterlington nitroparaffin operations; alleged violation occurred during start-up of a new system of deep disposal wells.

> EPA administrative order to establish environmental implementation plan on other Sterlington wastewaters; new equipment and technology under investigation.
> EPA suit in connection with our chlor-alkali plant condition at Ashtabula, Ohio; suit satisfactorily settled and condition satisfactorily remedied.

Elsewhere throughout the Corporation we have achieved or have developed plans to achieve full compliance with present standards and are moving ahead on programs to meet more rigid standards before they fall due. One particularly bright spot in 1976: our Rainbow mixed fertilizer operations received the Alabama Governor's Award as the state's outstanding industrial example of air emission control.

Beyond current accomplishments, problems, and planned expenditures, the unknown always lies ahead. Toxic substances control legislation, now under debate in Congress, and any new surface-mining legislation could pose requirements with dimensions dependent upon the provisions of the final laws.

While we cannot read the future, the trend is clearly toward more controls and considerable increases in costs.

Corporate Affairs

Dividends

The dividend on the common stock was increased to 60 cents a share in June, 1976, from the 50 cents a share paid in each of the preceding four quarters. During the year about 6½ percent of the Corporation's U. S. holders of common stock participated in an automatic dividend reinvestment service, in which Citibank of New York acts as agent for shareholders.

Stock Exchange Listings

IMC common stock became listed on the Paris Stock Exchange in fiscal 1976. In addition, the stock continues to be listed in the United States on the New York, Midwest, and Pacific Stock Exchanges. The ticker symbol is IGL.

Labor Relations

The Corporation has 51 collective bargaining agreements in effect with eight international unions or their affiliated locals. During fiscal 1976, 25 agreements were negotiated covering 50 percent of the hourly work force; all negotiations were concluded without a work stoppage. Twenty-three agreements representing 33 percent of the hourly work force will expire during fiscal 1977.

Certificate of Incorporation and By-Laws

The Corporation's Certificate of Incorporation and the By-Laws were amended at the October, 1975, Annual Meeting of shareholders.

The Certificate of Incorporation was amended to increase the number of authorized shares of IMC common stock, par value $5 per share, which the Corporation shall have authority to issue, from 20 million to 50 million shares.

The Certificate of Incorporation was further amended to create a new class of IMC stock, designated "Second Series Preferred Stock," consisting of 3 million shares, par value $1 per share, which would be subordinate to the Preferred Stock and existing Series Preferred Stock, and to reduce the number of authorized shares of Series Preferred Stock, par value $100 per share, from 1 million to 192,743 shares. Conversions into common stock reduced this number to 120,000 shares during the year.

The Certificate of Incorporation and the By-Laws were amended to increase the size of the Board of Directors from not less than 9 nor more than 12 Directors to not less than 12 nor more than 16.

New Directors

Four IMC corporate officers were elected to the Board of Directors in October, 1975, increasing the Board's membership from 12 to 16. They are Anthony E. Cascino, George D. Kennedy, William S. Leonhardt, and Robert C. Wheeler. Mr. Cascino has been Executive Vice President—Agriculture and a member of the Executive Office since 1969. Mr. Kennedy has been Executive Vice President—Industry and Business Development and a member of the Executive Office since 1971. Messrs. Leonhardt and Wheeler both joined IMC following the acquisition of Commercial Solvents Corporation in May, 1975; Mr. Leonhardt is an Executive Vice President, and Mr. Wheeler a Senior Vice President.

Equal Employment Opportunity

The IMC Executive Office appointed an Equal Employment Opportunity Committee as part of an ongoing commitment to ensure opportunities within the Corporation for women and members of minority groups. The committee membership, representing a cross-section of IMC's business areas and interests, sets short- and long-term goals, and recommends programs to implement those goals.

Legal Proceedings

On June 29, 1976, a federal grand jury returned an indictment charging IMC and several other U. S. potash producers with a misdemeanor under the Sherman Antitrust Act. The indictment alleges that the defendants and others unnamed conspired to restrict the amount of potash produced in the United States, to stabilize and raise the prices for potash produced and sold in the United States, and to restrict exports and imports of potash. The indictment states that these actions were accomplished by coordinating U. S. and Canadian production and prices, and by assurances to the government of Saskatchewan with respect to that government's regulation of potash production and prices. IMC has categorically denied the charges, and on July 9, 1976, the Corporation and the other defendants entered pleas of not guilty.

Also on June 29, the federal government filed a companion civil action against the same defendants setting forth essentially the same allegations and seeking an injunction against the alleged illegal

acts, and other relief. On July 29, IMC filed an answer denying these allegations.

Following the indictment and government civil action referred to above, several private treble damage actions were filed against the same defendants on the basis of substantially similar allegations.

In one of these actions the plaintiffs assert that they represent as a class all farmers throughout the United States who purchased potash from 1969 to the present. In another suit the plaintiffs purport to represent all purchasers of more than $5,000 worth of potash per year from the defendants between January, 1969, and December, 1974. In the other private suits, plaintiffs also allegedly represent classes of potash buyers. IMC plans to defend itself vigorously against the allegations in these actions. The damages claimed in each case are unspecified.

Meanwhile, an investigation of the fertilizer industry by the Antitrust Division of the Department of Justice continues with respect to phosphate and nitrogen. Phosphate aspects are now being handled by a recently impaneled grand jury in Chicago, and nitrogen by a New York grand jury.

For a discussion of certain litigation involving the Saskatchewan government, see Events in Saskatchewan on page 5 and Notes to Consolidated Financial Statements, page 37.

Debenture Offering

A public offering of $100 million of 9.35 percent sinking fund debentures due November 1, 2000, was successfully placed in November, 1975. The Corporation received an "A" rating on these debentures from Standard and Poor's and from Moody's, up from "BBB" and "Baa" on our prior bond issue. Net proceeds from the offering were added to the funds of the company for general corporate purposes, including capital expenditures and working capital requirements.

Employee Stock Ownership Plan

In fiscal 1976, IMC became one of the first companies in the nation to establish an Employee Stock Ownership Plan (ESOP), under provisions of the Tax Reduction Act of 1975. Accounts for all U.S. salaried employees, except for officers and other members of senior management, were credited with shares of IMC common stock, contributed by the company. The number of shares in each employee's account was based on the employee's salary level. The company obtains an additional 1 percent investment tax credit for its contribution to the plan. The ESOP provisions are scheduled to expire on December 31, 1976, but Congress is considering an extension; IMC plans to continue to participate as long as the ESOP provisions exist.

This plan complements an existing employee investment program, now in its seventh year, which is voluntary and open to all salaried employees in the United States and Canada. In the investment program, IMC matches a percentage of each participant's selected payroll deduction.

Management Changes

William S. Leonhardt, an IMC Executive Vice President who had been serving as President of IMC Chemical Group, Inc., was named Chairman of the Group, and Marvin B. Gillis, an IMC Senior Vice President who had been serving as head of Agricultural Operations, was named President and Chief Executive Officer of the Chemical Group. Julian M. Sobin, an IMC Senior Vice President, was named Executive Vice President of the Chemical Group.

George B. Howell, an IMC Senior Vice President, was named President of the IMC Industry Group, with Anton F. Kuzdas, an IMC Vice President, named Executive Vice President of the Group.

Judson H. Drewry, who had been serving as Vice President—Florida Operations, was elected a Senior Vice President and succeeds Dr. Gillis as head of operations in the Agriculture Group.

James T. Gibson, Jr., who had been serving as IMC Vice President and Treasurer, was named to the newly created position of Vice President—Administration.

Donald E. Phillips, who had been serving as IMC Vice President—Administration, Agricultural Operations, was appointed Vice President—Rainbow, in charge of the Agriculture Group's mixed fertilizer operations.

Billie B. Turner, who had been serving as Division Vice President—Rainbow, was elected an IMC Vice President and named Vice President—Florida Operations in the Agriculture Group.

Darrell L. Feaker, who had been serving as Assistant Treasurer, was elected Treasurer of the Corporation.

Investment in Industry

As little as five years ago, IMC's industrial materials and chemicals businesses were significant only because they had worldwide marketing capabilities which could be supplied from a potential natural resource base. As such they represented an opportunity to build substantial earnings outside the realm of fertilizers, the company's historic source of major income.

The momentum of a development and acquisition program to realize the opportunities in these two businesses reached an investment of $127 million in 1974, $290 million in 1975, and $417 million in 1976.

On the following pages is a look at IMC's industry and chemical groups.

Today the IMC Industry Group brings together into one general industrial business the major operating areas of carbon products, ferroalloys and metals, and foundry products.

Sales and earnings information for the Group is included in the business unit summary on page 25.

The Group's marketing and sales force operates worldwide. Primary markets are the steel and foundry industries; aluminum producers and utilities are also important buyers.

A share of IMC's industrial products is obtained through purchases, agency relationships, and trading activities, but a growing portion of the business is accounted for through key acquisitions and expansions into basic mining and production areas.

Charted here is the development of IMC's investment in the Industry Group over the last three years. This investment stood at $61.2 million at the close of fiscal 1974, rose to $82.6 million in 1975, and reached a total of $118.6 million in 1976. Acquisitions, new construction, consolidations, divestments—all have played their part in forming the IMC Industry Group.

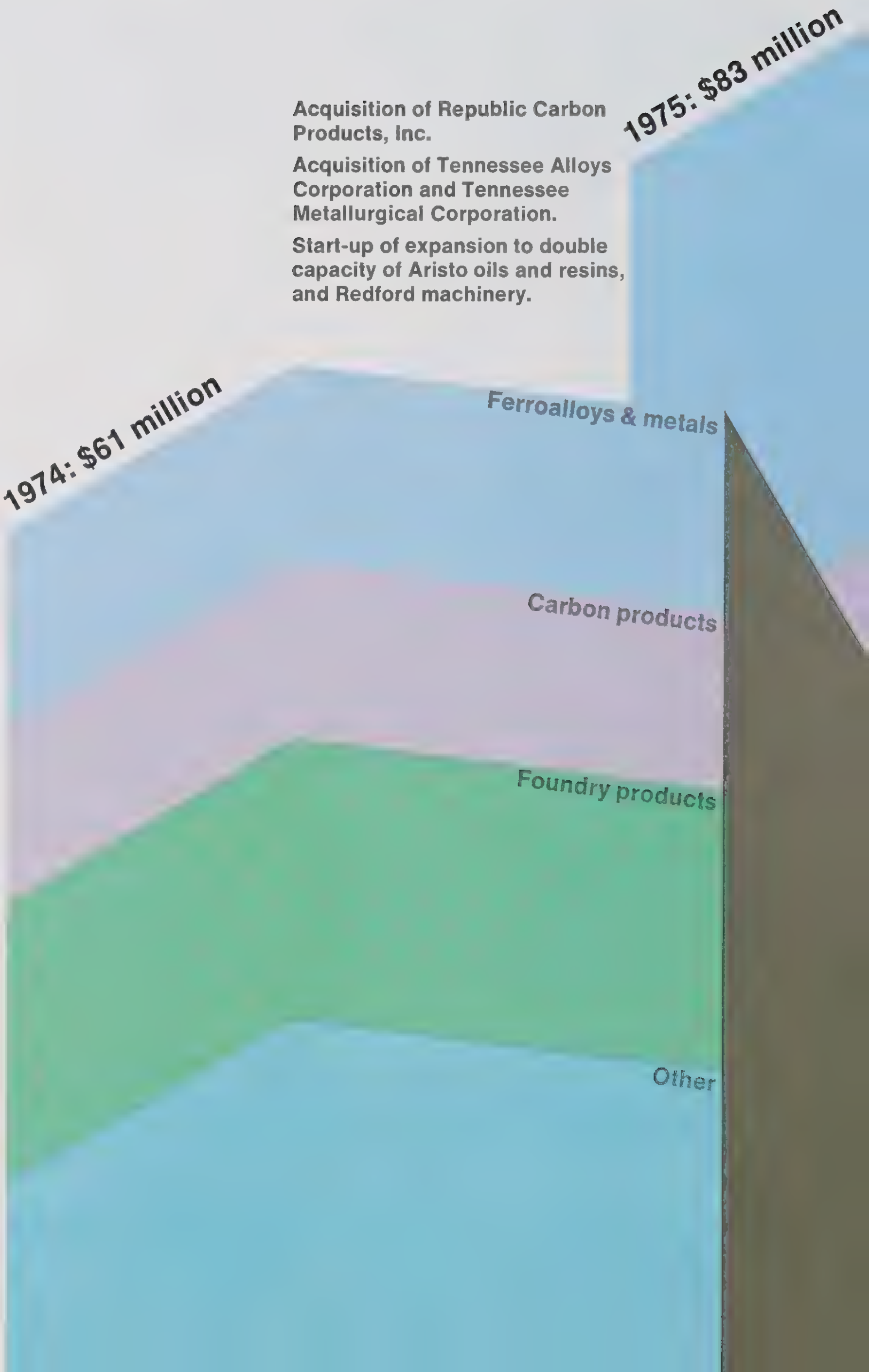
Acquisition of Republic Carbon Products, Inc.

Acquisition of Tennessee Alloys Corporation and Tennessee Metallurgical Corporation.

Start-up of expansion to double capacity of Aristo oils and resins, and Redford machinery.

Sale of refractories business at book value.

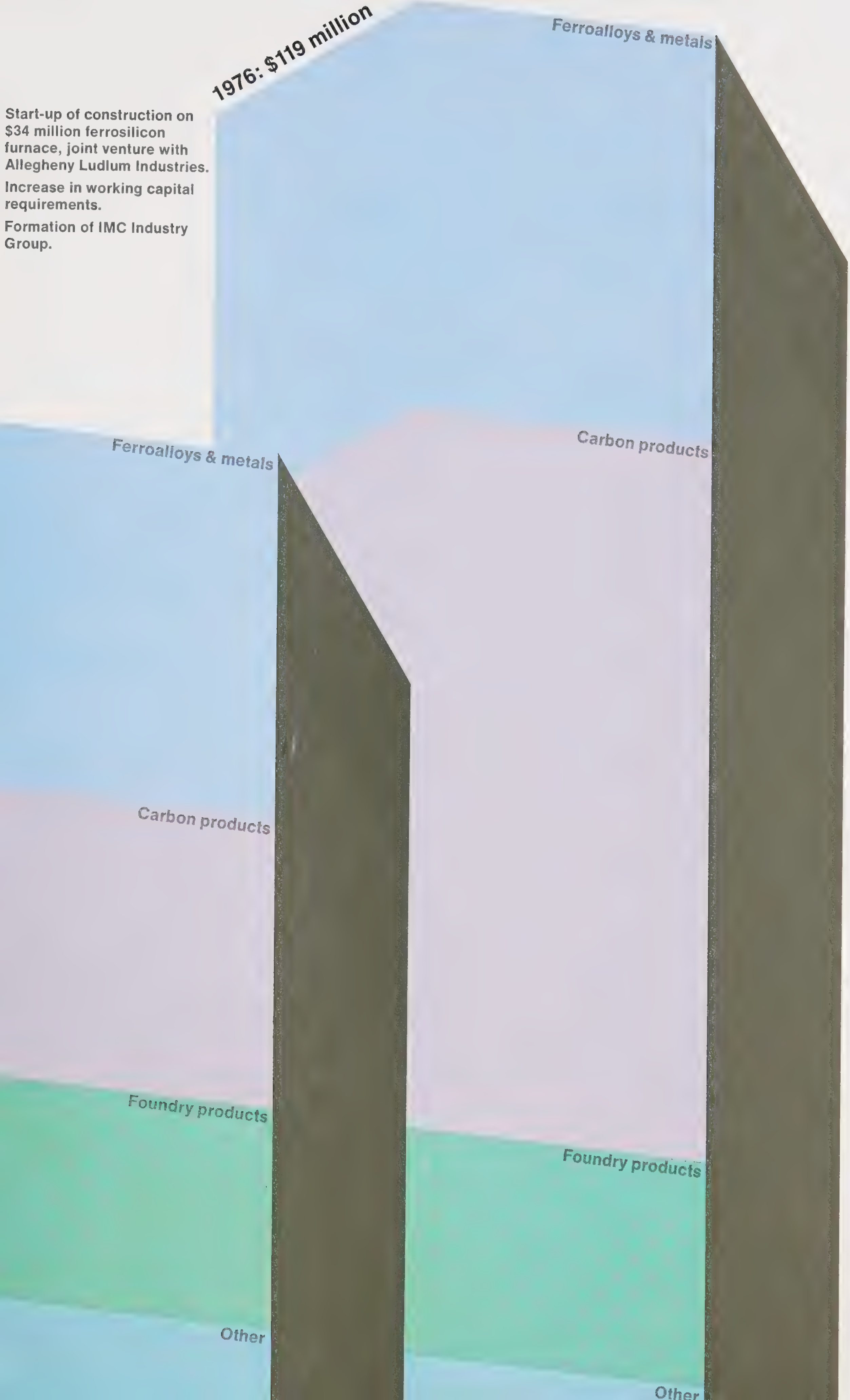
Consolidation of trading, metals, and industrial businesses.



Start-up of construction on $34 million ferrosilicon furnace, joint venture with Allegheny Ludlum Industries.

Increase in working capital requirements.

Formation of IMC Industry Group.



Left: New 75,000-ton-a-year ferrosilicon furnace at Bridgeport, Alabama, will boost total IMC ferrosilicon capacity to 107,000 tons per year. The project, 75 percent owned by IMC, is a joint venture with Allegheny Ludlum Industries.

Above: Foundry resins, oils, and core- and mold-making machines are produced at new and larger site in Detroit, heart of the automotive industry.

Recent modification of petroleum coke calciner at Bakersfield, California, will produce increased quantities of calcined fluid coke.

Above and at left below: **Industry Group's terminal at Long Beach, California, ships petroleum coke and metallurgical coal to customers across the world.**

Steel mills and foundries are served by ferrosilicon plant at Kimball, Tennessee.

Investment in Chemicals

IMC Chemical Group, Inc., is a wholly-owned subsidiary established in May of 1976 to unify and optimize the strengths represented in the company's several chemicals-oriented businesses.

Sales and earnings information for the Group is included in the business unit summary on page 25.

These operations, based on a unification of the Commercial Solvents and Sobin Chemicals organizations, produce, market, and trade in a range of basic and specialty chemicals including petrochemicals, chlor-alkalis, fine chemicals, organic chemicals, industrial minerals, industrial explosives, and veterinary products.

A relatively few basic raw materials are used to produce these product lines. Through research, unique chemical reactions have been developed which transform these simple raw materials into building blocks for hundreds of end products dissimilar in final form, use, and market orientation.

The Chemical Group's principal building blocks are natural gas, propane, potash, salt, and feldspar. Natural gas is the basic raw material for ammonia, which is used in the IMC production of nitrogen fertilizers, industrial explosives, and other chemical derivatives. Propane is the basic raw material for nitroparaffins, a large family of compounds. Potash and salt, through electrolysis, produce caustic soda, caustic potash, and chlorine; further processing yields potassium carbonate and chloropicrin. Feldspathic materials provide strength and chemical durability in glass products and serve as a flux in ceramic products.

IMC's investment in IMC Chemical Group, Inc., has risen from $65.5 million at the close of fiscal 1974 to $298.0 million at the 1976 year-end. The Group has been created principally through the development of full ownership positions in Sobin Chemicals, Inc., and Commercial Solvents Corporation.

Start-up of construction on $70 million ammonia plant.

Increase of ownership position in Commercial Solvents Corporation to 100 percent.

Increase of ownership position in Sobin Chemicals, Inc., to 100 percent.

Increase of ownership position in Sobin Chemicals, Inc., from 37 percent to 81 percent.

Acquisition of 38 percent of Commercial Solvents Corporation common stock.

Acquisition of chlor-alkali and fine chemical plants from Detrex Chemical Industries.

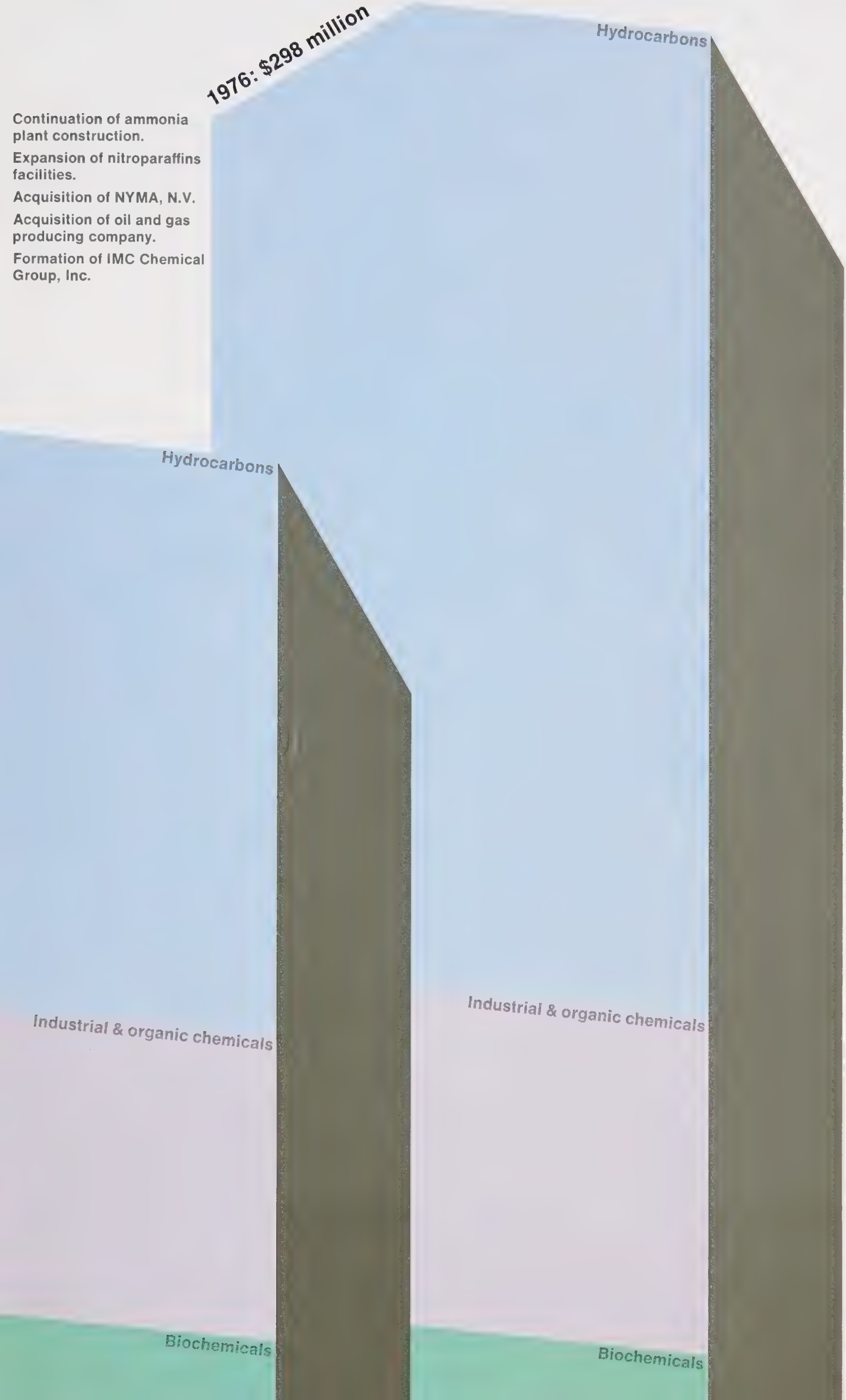
Continuation of ammonia plant construction.

Expansion of nitroparaffins facilities.

Acquisition of NYMA, N.V.

Acquisition of oil and gas producing company.

Formation of IMC Chemical Group, Inc.



Left: **Completion of new 390,000-ton-per-year ammonia plant next spring at Sterlington, Louisiana, will more than double IMC Chemical Group's capacity, bringing total to 730,000 tons.**

Above: **Refrigerated storage tank at new Sterlington plant will hold 30,000 tons of anhydrous ammonia at 28 degrees below zero.**

Electrolytic cells at chlor-alkali plant in Orrington, Maine, produce chlorine and caustic soda for the pulp and paper industries.

Above: Two stories high, new blender at Seiple, Pennsylvania, chemical plant mixes polyol at the rate of 40,000 pounds per hour for the paint and coating industries.

Left below: Brine utilized in Orrington caustic soda production moves through a closed system of tanks and pipes to electrolytic cells, then is treated for use again and again.

Drillers under contract to IMC sink another well in the company's natural gas fields in Louisiana to provide more of the raw material from which ammonia is made.

Fourth Quarter Operations

Sales for 1976's fourth quarter were virtually the same as a year ago and as 1976's third quarter ended March 31. Fourth quarter net earnings, however, were $14.6 million less than last year's earnings before an extraordinary tax credit and $6.8 million less than the March quarter. The fourth quarter decline in earnings is principally due to lower prices and higher costs for agricultural and industrial products in comparison to a year ago and last quarter. These adverse factors were partially offset by improved results in IMC's chemical business, due primarily to production gains in ammonia and nitroparaffins.

On a per share basis, primary earnings in the fourth quarter declined 95 cents or 36 percent from last year's earnings before an extraordinary tax credit and declined 41 cents or 20 percent from the 1976 March quarter. Fully diluted earnings per share declined 78 cents or 33 percent from last year's earnings before an extraordinary tax credit and declined 36 cents or 18 percent from the 1976 March quarter. Part of the reduction in primary per share earnings this quarter is due to conversions of preferred stock and debentures.

The 1975 fourth quarter extraordinary item represents realization of investment tax credits which were used in determining provisions for income taxes in prior years.

Income tax provisions for the 1976 fourth quarter were lower than last year and last quarter as a result of lower earnings and a change in the estimate of the effective Canadian income tax rate. On a consolidated basis, the fourth quarter's effective tax rate was 27.0 percent compared to 32.4 percent a year ago and 43.3 percent in the March quarter.

Quarterly Information: Fiscal 1976 (In millions except per share amounts)	Sales	Earnings*	Earnings† Per Share	Dividends Per Share
First Quarter ended September 30	$ 292.2	$ 32.1	$1.86	$ .50
Second Quarter ended December 31	313.7	37.7	2.16	.50
Third Quarter ended March 31	320.3	36.2	2.07	.50
Fourth Quarter ended June 30	333.8	29.4	1.66	.60
	$1,260.0	$135.4	$7.75	$2.10
Quarterly Information: Fiscal 1975 (In millions except per share amounts)				
First Quarter ended September 30	$ 286.6	$ 29.1	$1.85	$ .24
Second Quarter ended December 31	328.0	40.4	2.48	.32
Third Quarter ended March 31	356.5	48.9	2.97	.32
Fourth Quarter ended June 30	331.8	43.4	2.61	.50
	$1,302.9	$161.8	$9.91	$1.38

*Earnings before extraordinary item. †Primary earnings before extraordinary item.

Common Stock Prices	1975/76	1974/75
First Quarter ended September 30	$46⅝—$36⅛	$31⅞—$21½
Second Quarter ended December 31	44⅛— 32⅝	40½— 27⅞
Third Quarter ended March 31	42¼— 35⅜	40⅜— 30⅞
Fourth Quarter ended June 30	38⅝— 32¾	48½— 37½

Business Unit Summary (In millions except per share amounts and percentages)

Years Ended June 30	**1976**	1975	1974	1973	1972
Net Sales: Agriculture					
Phosphate rock	**$ 201.6**	208.8	75.4	45.0	41.2
Concentrated phosphates	**190.2**	101.3	60.6	44.0	39.6
Potash	**104.0**	115.7	81.6	57.5	54.7
Mixed fertilizers	**99.5**	115.9	96.1	74.9	64.4
Other	**58.3**	206.9	103.0	20.9	15.7
	$ 653.6	748.6	416.7	242.3	215.6
Net Sales: Chemicals					
Hydrocarbons	**$ 108.9**	16.0	—	—	—
Industrial and organic chemicals	**126.6**	100.4	67.9	—	—
Biochemicals	**19.7**	4.0	—	—	—
	$ 255.2	120.4	67.9	—	—
Net Sales: Industry					
Carbon products	**$ 167.8**	210.6	80.8	66.7	64.0
Ferroalloys	**128.6**	161.7	77.6	62.6	36.8
Foundry products	**34.5**	32.7	26.4	23.2	18.8
Other	**20.3**	28.9	189.1	153.1	156.0
	$ 351.2	433.9	373.9	305.6	275.6
	$1,260.0	1,302.9	858.5	547.9	491.2
Earnings before income taxes*					
Agriculture	**$ 187.7**	216.3	85.0	32.3	27.9
Chemicals	**12.4**	19.5	5.9	—	—
Industry	**25.5**	39.0	5.5	3.8	(.7)
	$ 225.6	274.8	96.4	36.1	27.2
Earnings*					
Agriculture	**$ 115.1**	131.5	53.7	23.2	20.7
Chemicals	**6.4**	12.2	3.2	—	—
Industry	**13.9**	18.1	.5	2.3	(.4)
	$ 135.4	161.8	57.4	25.5	20.3
Primary earnings per share*					
Agriculture	**$ 6.59**	8.05	3.36	1.44	1.25
Chemicals	**.37**	.75	.20	—	—
Industry	**.79**	1.11	.03	.14	(.02)
	$ 7.75	9.91	3.59	1.58	1.23
Invested Capital					
Agriculture	**$ 518.2**	521.7	378.2	303.1	302.8
Chemicals	**298.0**	206.7	65.5	—	—
Industry	**118.6**	82.6	61.2	79.9	87.7
Return on invested capital					
Agriculture	**22.2%**	25.2%	14.2%	7.7%	6.8%
Chemicals	**2.1**	5.9	4.9	—	—
Industry	**11.7**	21.9	.8	2.9	—

*Before extraordinary items.

Note: Interest and corporate general expenses have been allocated among the businesses based principally on sales and invested capital.

Five-Year Comparison

Years ended June 30	1976	1975	1974	1973	1972
Summary of Operations (In millions except per share amounts)					
Revenues	**$1,278.5**	1,331.7	871.8	556.8	501.4
Operating costs and expenses	**1,024.7**	1,034.4	750.9	508.3	459.9
Loss on investments and discontinued operations	—	—	8.7	—	—
Interest charges	**28.2**	22.5	15.8	12.4	14.3
Earnings before income taxes and extraordinary items	**225.6**	274.8	96.4	36.1	27.2
Provision for income taxes	**90.2**	113.0	39.0	10.6	6.9
Earnings before extraordinary items	**135.4**	161.8	57.4	25.5	20.3
Extraordinary items*	—	4.2	13.0	.7	—
Net earnings	**135.4**	166.0	70.4	26.2	20.3
Preferred stock dividend requirements	**1.2**	1.9	2.7	2.1	2.1
Net earnings for common shares	**134.2**	164.1	67.7	24.1	18.2
Per Share Data					
Primary earnings—before extraordinary items	**$ 7.75**	9.91	3.59	1.58	1.23
Primary earnings—net	**7.75**	10.17	4.44	1.63	1.23
Fully diluted earnings—before extraordinary items	**7.39**	8.90	3.18	1.46	1.16
Fully diluted earnings—net	**7.39**	9.13	3.90	1.51	1.16
Common dividends	**2.10**	1.38	.57	.29	.17
Book value	**32.00**	25.95	16.79	12.83	11.48
Average shares—primary	**17.3**	16.1	15.2	14.9	14.8
Average shares—fully diluted	**18.3**	18.2	18.1	17.2	17.1
Other Data (Dollars in millions)					
Total assets	**$1,248.9**	1,087.5	744.5	555.0	534.5
Working capital	**279.0**	184.9	195.7	132.2	124.8
Property, plant and equipment, net	**666.0**	535.1	297.0	225.3	225.5
Long-term debt, less current maturities	**370.4**	295.6	243.5	145.1	151.9
Shareholders' equity	**580.7**	457.9	309.2	249.6	229.7
Invested capital	**951.1**	753.5	552.7	394.8	381.6
Capital expenditures	**154.9**	165.3	97.1	22.0	15.4
Depreciation and depletion	**53.1**	33.0	23.4	16.6	15.9
Returns based on earnings before extraordinary items:					
Net sales	**10.7%**	12.4%	6.7%	4.7%	4.1%
Shareholders' equity	**23.3%**	35.3%	18.6%	10.2%	8.8%
Invested capital	**14.2%**	21.5%	10.4%	6.5%	5.3%
Number of shareholders, including beneficial owners	**31,180**	29,800	29,500	35,094	36,305
Number of employees	**9,674**	10,455	6,589	6,165	6,222
Common shares outstanding at end of fiscal year (In millions)	**17.5**	16.5	15.1	14.8	14.8

*In 1975 and 1974, loss carryforward tax credits; in 1973, loss carryforward tax credits, net of provisions for losses on discontinued operations. In 1974, IMC changed its accounting criteria for extraordinary items. If applied in earlier years, earnings before extraordinary items would have been $23.6 million ($1.45 per share) for 1973.

IMC's operating revenues in 1976 declined \$53 million or 4% from fiscal 1975 after a 1975 increase of \$460 million or 53%. Net earnings in 1976 also declined \$26 million or 16% from 1975's earnings before an extraordinary tax credit. This decline followed a 1975 increase in earnings before extraordinary tax credits of \$104 million or 182%.

On a per share basis, primary earnings in 1976 declined \$2.16 or 22% and fully diluted earnings declined \$1.51 or 17% from 1975's earnings before an extraordinary tax credit. Part of the reduction in primary per share earnings this year is the result of an increase in the average number of common shares from 16.1 million shares in 1975 to 17.3 million shares in 1976; this increase is primarily the result of conversions of preferred stock and debentures. In 1975, primary earnings before an extraordinary tax credit increased \$6.32 or 176% over the previous year and fully diluted earnings increased \$5.72 or 180%.

The 1976 decline in agricultural sales and earnings reflects a return to more normal conditions after nearly two years of record demand. The negative effect of lower volumes and higher costs (including an increased Saskatchewan reserve tax) was partially offset by higher average selling prices. Sales were also lower as a result of phasing out fertilizer material trading activities early in 1976; earnings from that sector, however, were not material. At the end of fiscal 1976, fertilizer industry capacity exceeded demand and fertilizer prices generally were lower than their levels of a year ago.

Depressed conditions in the world steel and foundry businesses throughout most of fiscal 1976 adversely affected the industry group's sales and earnings in contrast to 1975 when demand increased from a year earlier for several segments of that business.

The pressures of inflation on salaries and wages and goods and services in the last two years have caused significant increases in costs and expenses. The Saskatchewan reserve tax, first imposed in 1975, increased the pressures and added \$20.3 million to costs for that year; that tax was increased by \$7.8 million in 1976, reaching a level of \$28.1 million. As a consequence of all these pressures, operating costs and expenses as a percent of revenues increased to 80.2% in 1976 from 77.7% in 1975 after declining from 86.1% in 1974.

Since merger in May 1975, the accounts of Commercial Solvents Corporation (CSC) have been included in the consolidated financial statements. Prior to merger, IMC's equity in earnings of CSC (then owned 46 percent) was included as a part of consolidated revenues. Had CSC been a wholly-owned subsidiary for all of fiscal 1975, consolidated revenues and net earnings for that fiscal year on an unaudited pro forma basis would have been \$1,506.5 million and \$172.4 million, respectively; primary and fully diluted earnings per share would have been \$10.56 and \$9.48, respectively.

The contribution to IMC's earnings by CSC's businesses was reduced from a year ago because of ammonia and nitroparaffin production problems that occurred during the first half of this year. Early in the second half of 1976, ammonia production problems were resolved and progress has been made in improving nitroparaffin production; these production gains contributed to improved results in the chemicals business during the last six months of 1976.

In 1975 and 1976 interest charges increased by \$6.7 million and \$5.7 million, respectively, reflecting higher debt incurred for the construction of a new phosphate chemicals plant in Florida in 1975 and for capital expenditures that include construction of a new ammonia plant and other new plants and equipment, acquisition and development of mineral, oil and gas properties, and expansion and renovation of existing facilities in 1976.

Provisions for income taxes increased by \$74.0 million in 1975 and decreased by \$22.8 million in 1976 as a result of changes in earnings before income taxes and in taxes applicable to dividends from foreign subsidiaries. The effective tax rates in those two years increased from 40.5 percent in 1974 to 41.1 percent in 1975 and decreased to 40.0 percent in 1976.

Summary of Accounting Policies

Principles of Consolidation

Financial statements of all significant subsidiaries are consolidated. Investments in nonconsolidated subsidiaries and significant affiliated companies where ownership exceeds 20% are carried at cost, adjusted for appropriate amortization of intangibles, allowances for losses and equity in net earnings or losses. Investments in other companies are carried at cost and dividends are included in earnings when received. The excess purchase cost over fair value of net assets of businesses acquired since November 1, 1970 is amortized over periods of up to 40 years; similar costs for businesses acquired prior to November 1, 1970 are not being amortized where in the opinion of management there has been no impairment of value.

Translation of Foreign Currency

The financial statements of foreign subsidiaries are translated in accordance with Standard No. 8 of the Financial Accounting Standards Board. The new standard had no material effect on the accompanying financial statements.

Inventories

Inventories are stated at the lower of cost or market (net realizable value). Cost is determined on the basis of cumulative annual averages and specific items. In 1976, the last-in, first-out method was discontinued for a small segment of inventories.

Exploration and Development Costs

Mineral, gas and oil exploration costs are charged to expense as incurred. Intangible drilling costs for successful gas and oil wells are capitalized.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Repairs and maintenance are charged to expense as incurred; major renewals and improvements are capitalized. Upon sale or other retirement of property, the cost and accumulated depreciation or depletion are removed from the accounts and any gain or loss is either included in earnings or charged to an allowance for plant closings, as appropriate. Depreciation is provided over estimated useful lives of 17 to 50 years for buildings and 5 to 20 years for machinery and equipment using principally straight-line and unit-of-production methods. Depletion or amortization of mineral, gas and oil properties and rights is provided in relation to estimated recoverable reserves or deliveries under contract.

Pension Plans

IMC has pension plans which cover substantially all of its employees. Annual contributions are made for normal costs, as accrued, and past service costs which are being amortized over various periods up to 40 years.

Common Stock Plans

IMC has stock option plans under which options to purchase common shares may be granted to officers and other key employees. As options are exercised, the excess of proceeds over par value of stock issued is credited to capital in excess of par value. No amounts are charged to earnings in accounting for options.

IMC also has performance share plans which provide for awarding common shares or cash to officers and key employees upon achievement of specific performance objectives. Compensation expense equal to fair market value of shares has been recognized in the year the shares are earned under the plans.

IMC contributes either cash or common stock from its treasury to an employee stock ownership plan; contributions to the plan are equal to an additional 1% investment tax credit. Such contributions are added to compensation costs with a corresponding reduction in the provision for income taxes.

Income Taxes

Income taxes include federal, foreign and state taxes on earnings, less investment tax credits which are applied as available. Deferred income tax provisions result from differences in the timing of reporting income and expense elements for financial reporting as opposed to tax purposes. Income taxes are provided on the earnings of foreign subsidiaries to the extent such earnings are expected to be remitted.

Consolidated Statement of Earnings

(In millions except per share amounts) Years ended June 30	**1976**	1975
Revenues:		
Net sales	**$1,260.0**	$1,302.9
Interest earned	**8.6**	12.2
Other income, net	**9.9**	16.6
	1,278.5	1,331.7
Costs and expenses:		
Cost of goods sold	**935.5**	955.3
Selling, administrative and general expenses	**89.2**	79.1
Interest charges	**28.2**	22.5
	1,052.9	1,056.9
Earnings before income taxes and extraordinary item	**225.6**	274.8
Provision for income taxes	**90.2**	113.0
Earnings before extraordinary item	**135.4**	161.8
Extraordinary tax credit	**—**	4.2
Net earnings	**$ 135.4**	$ 166.0
Earnings per common and common equivalent share:		
Primary		
Earnings before extraordinary item	**$ 7.75**	$ 9.91
Net earnings	**7.75**	10.17
Fully diluted		
Earnings before extraordinary item	**7.39**	8.90
Net earnings	**7.39**	9.13

(See Summary of Accounting Policies and Notes to Consolidated Financial Statements)

Consolidated Balance Sheet

Assets (In millions) At June 30	**1976**	1975
Current assets:		
Cash	**$ 18.0**	$ 22.4
Deposits and marketable securities, at cost which approximates market	**70.0**	43.4
Receivables, less allowances of $7.1 in 1976 and $7.8 in 1975	**195.0**	196.3
Inventories		
Products (principally finished)	**184.2**	171.8
Operating materials and supplies	**29.7**	30.5
	213.9	202.3
Prepaid expenses	**15.6**	4.9
	512.5	469.3
Investments and long-term receivables:		
Investments in and advances to nonconsolidated subsidiaries and affiliates, less allowances of $6.2 in 1976 and $4.9 in 1975	**26.4**	34.9
Long-term receivables and other investments at cost, less allowances of $1.4 in 1976 and 1975	**15.5**	18.7
	41.9	53.6
Property, plant and equipment:		
Land	**18.6**	17.6
Mineral, oil and gas properties and rights	**146.5**	105.2
Buildings and leasehold improvements	**140.4**	130.5
Machinery and equipment	**465.0**	398.0
Construction in progress	**122.5**	64.9
	893.0	716.2
Accumulated depletion	**(18.7)**	(13.9)
Accumulated depreciation	**(208.3)**	(167.2)
Net property, plant and equipment	**666.0**	535.1
Deferred royalties and other assets	**28.5**	29.5
	$1,248.9	$1,087.5

(See Summary of Accounting Policies and Notes to Consolidated Financial Statements)

Liabilities and Shareholders' Equity (In millions) At June 30

	1976	1975
Current liabilities:		
Notes payable	$ 13.9	$ 10.1
Accounts payable and accrued liabilities	180.1	172.3
Income taxes	31.1	93.4
Current maturities of long-term debt	8.4	8.6
	233.5	284.4
Long-term debt, less current maturities	370.4	295.6
Other noncurrent liabilities and deferred credits:		
Deferred income taxes	38.8	27.9
Miscellaneous	25.5	21.7
	64.3	49.6
Shareholders' equity:		
4% cumulative preferred stock—$100 par, redeemable at $110 per share, 100,000 shares authorized and issued, including 1,670 treasury shares	10.0	10.0
Series preferred stock—$100 par, 120,000 shares outstanding in 1976, 192,743 in 1975	12.0	19.3
Common stock—$5 par, 17,619,506 shares issued in 1976, 16,680,657 in 1975, including treasury shares, 159,651 in 1976 and 160,164 in 1975	88.1	83.4
Capital in excess of par value	39.6	12.1
Retained earnings	433.2	335.3
	582.9	460.1
Less treasury shares at cost	2.2	2.2
	580.7	457.9
	$1,248.9	$1,087.5

Consolidated Statement of Changes in Financial Position

(In millions) Years ended June 30	1976	1975
Source of funds:		
Earnings before extraordinary item	$135.4	$161.8
Depreciation and depletion	53.1	33.0
Deferred income taxes	10.9	9.3
Extraordinary tax credit	—	4.2
Other	15.9	(8.4)
Total from operations	215.3	199.9
Issuance of common stock—		
Conversion of Series preferred stock	7.3	25.9
Conversion of 4% debentures	22.9	1.3
Exercise of options	1.7	2.2
Long-term debt	114.8	47.0
Decrease in investments and long-term receivables	7.4	36.9
Sale of property, plant and equipment	6.9	4.1
	376.3	317.3
Use of funds:		
Capital expenditures	154.9	165.3
Acquired businesses—		
Property, plant and equipment	38.3	110.4
Other assets	—	12.6
Long-term liabilities and deferred credits	—	(26.6)
	38.3	96.4
Dividends	37.5	24.1
Reduction in long-term debt	40.0	12.7
Conversion of Series preferred stock	7.3	25.9
Other net changes in financial position	4.2	3.7
	282.2	328.1
Increase (decrease) in working capital	$ 94.1	$(10.8)
Increase (decrease) in working capital by component:		
Cash and marketable securities	$ 22.2	$(30.8)
Receivables	(1.3)	28.2
Inventories	11.6	123.4
Prepaid expenses	10.7	2.3
Notes payable	(3.8)	(4.1)
Accounts payable and accrued liabilities	(7.8)	(59.3)
Income taxes	62.3	(65.8)
Current maturities of long-term debt	.2	(4.7)
Increase (decrease) in working capital	$ 94.1	$(10.8)

(See Summary of Accounting Policies and Notes to Consolidated Financial Statements)

Consolidated Statement of Shareholders' Equity

(Dollars in millions)	Common Stock Shares	Common Stock Amount	Preferred Stock	Capital in Excess of Par Value	Retained Earnings	Treasury Shares
Balance, July 1, 1974	11,477,049	$57.4	$55.2	$ 8.5	$190.3	$(2.2)
Net earnings					166.0	
Cash dividends paid—						
Preferred stock					(1.9)	
Common stock ($1.38 per share)					(22.2)	
Stock options exercised and tax effect of early dispositions	130,140	.7		1.7		
Conversions of 259,572 shares of Series preferred stock	976,928	4.8	(25.9)	21.1		
Conversion of 4% debentures	33,751	.2		1.1		
33⅓% common stock distribution	4,062,789	20.3		(20.3)		
Change in fiscal year of COC					3.1	
Balance, June 30, 1975	16,680,657	83.4	29.3	12.1	335.3	(2.2)
Net earnings					135.4	
Cash dividends paid—						
Preferred stock					(1.2)	
Common stock ($2.10 per share)					(36.3)	
Stock options exercised and tax effect of early dispositions	119,291	.6		1.4		
Conversions of 72,743 shares of Series preferred stock	218,841	1.1	(7.3)	6.2		
Conversion of 4% debentures	600,717	3.0		19.9		
Purchase of common stock (27,686 shares)						(1.1)
Contribution of common stock to employee stock ownership plan (28,199 shares)						1.1
Balance, June 30, 1976	17,619,506	$88.1	$22.0	$39.6	$433.2	$(2.2)

(See Summary of Accounting Policies and Notes to Consolidated Financial Statements)

Earnings per Common and Common Equivalent Share

Primary earnings per share are based on the weighted average number of common and common equivalent shares outstanding after recognition of preferred stock dividend requirements. Common equivalent shares include dilutive stock options and shares awarded under performance share plans.

Fully diluted earnings per share are based on primary earnings per share, adjusted for dilutive stock options at end of period market prices and for the assumed conversion of the 4% convertible subordinated debentures and Series preferred stock. In these computations, interest on those debentures (net of income tax effect) and dividends on Series preferred stock have been added to earnings applicable to common shares. Shares issuable on exercise of other options have been excluded from the computations as they would either have no effect or would be anti-dilutive. Shares used in the computations are as follows:

	1976	1975
Weighted average common shares—		
Outstanding	17,099,220	15,870,158
For stock options	125,156	176,825
For performance share plans	98,832	102,800
Total for primary earnings per share	17,323,208	16,149,783
Additional shares for conversion—		
4% debentures	437,177	948,888
Series preferred stock	542,191	1,116,470
Additional shares for stock options	7,525	10,721
Total for fully diluted earnings per share	18,310,101	18,225,862

Acquisitions

The common stock of Commercial Solvents Corporation (CSC) was acquired for $119.6 million cash, including expenses, in tender offers in March 1974 (38% for $35.2 million) and August 1974 (8% for $8.8 million), and in a merger in May 1975 (54% for $75.6 million). Prior to May 1975, the investment in CSC was accounted for on the equity method. Since merger in May the accounts of CSC have been included in the accompanying consolidated financial statements. The total acquisition cost was assigned to the net assets of CSC based on their estimated fair values. Had CSC been a wholly-owned subsidiary for all of fiscal 1975, consolidated revenues and net earnings for that fiscal year on an unaudited pro forma basis would have been $1,506.5 million and $172.4 million, respectively; primary and fully diluted earnings per share would have been $10.56 and $9.48, respectively. In March 1975, the 19% minority interest in Sobin Chemicals, Inc. (Sobin) was acquired for $12.5 million. In May 1976, CSC's name was changed to IMC Chemical Group, Inc. and Sobin was merged into that company.

On March 1, 1976, IMC Exploration Company, a wholly-owned subsidiary of IMC, purchased substantially all of the operating assets of a privately held gas and oil producing company for approximately $38.5 million cash.

Subsidiaries and Affiliates

Summarized financial information for consolidated foreign subsidiaries presented below (1) as to net sales and net assets includes intercompany transactions and accounts, and (2) as to net earnings excludes intercompany transactions, except charges for administrative costs:

(In millions)	1976	1975
Net sales	$279.0	$364.2
Net earnings	$ 23.6	$ 32.9
Current assets	$184.5	$162.7
Investments and other assets	16.2	20.7
Net property, plant and equipment	155.2	130.2
Total assets	355.9	313.6
Liabilities	167.3	115.4
Net assets	$188.6	$198.2
Retained earnings	$172.2	$170.3

Foreign currency translation gains and losses were not material in fiscal 1976 and 1975.

A substantial portion of undistributed retained earnings of consolidated foreign subsidiaries is considered to be permanently invested; accordingly, no U.S. income taxes have been provided for the repatriation of that portion of such earnings.

Beginning in 1975, the accounts of Continental Ore Corporation (COC), a wholly-owned subsidiary, are included for its year ended June 30; previously, they were included on the basis of a fiscal year ending March 31. This change had no material effect on consolidated results of operations for 1975. Net earnings of COC for the three months ended June 30, 1974 have been credited to retained earnings.

Investments in and advances to nonconsolidated subsidiaries and affiliates at June 30, 1976 include $6.5 million relating to Chemical Leaman Tank Lines, Inc.; the quoted market value of this investment was about $3.8 million. In view of IMC's 26%

ownership in this company, quoted market value may not be indicative of actual fair value for this investment.

Included in other income, net are dividends ($4.0 million in 1976 and $4.1 million in 1975) and proceeds of $6.8 million in 1975 from sale of stock and other payments from an investment that was written off in prior years.

Inventories

Product inventories at June 30, 1976 and 1975 are as follows:

(In millions)	1976	1975
Agriculture	$ 59.9	$ 83.4
Chemicals	31.9	34.3
Industry	80.4	43.9
Land held for sale	12.0	10.2
	$184.2	$171.8

The cost of U.S. inventories of CSC (acquired in 1975) was based on the LIFO method. In 1976, the average cost method was adopted to conform to IMC's inventory accounting policy. The change increased net earnings in 1976 by $2.1 million (12¢ per primary share).

Income Taxes

The provision for income taxes consists of the following:

(In millions)	1976	1975
United States:		
Federal		
Current	$ 51.1	$ 59.8
Deferred	10.8	6.5
	61.9	66.3
State and local		
Current	8.1	10.0
Deferred	.8	.6
	8.9	10.6
Foreign:		
Current	20.5	33.9
Deferred	(1.1)	2.2
	19.4	36.1
	$ 90.2	$113.0

The provision for federal income taxes in 1975 was determined excluding investment tax credits which were used in determining provisions for income taxes in prior years. These tax credits of $4.2 million are included as an extraordinary credit in 1975.

A reconciliation between taxes computed at the 48% federal statutory rate and the consolidated effective tax rate is as follows:

(In millions)	1976		1975	
Computed tax at federal statutory rate	$108.3	48.0%	$131.9	48.0%
Investment tax credits	(6.6)	(2.9)	(11.0)	(4.0)
Percentage depletion	(16.3)	(7.2)	(15.4)	(5.6)
Other items (none in excess of 5% of computed tax)	4.8	2.1	7.5	2.7
Consolidated effective tax	$ 90.2	40.0%	$113.0	41.1%

In 1976, deferred income tax provisions relate principally to depreciation differences ($4.2 million); in 1975, such provisions relate principally to depreciation differences ($7.7 million) and deferred DISC income ($6.3 million).

Debt

Long-term debt at June 30, 1976 and 1975 was as follows:

(In millions)	1976	1975
9.35% debentures due 2000 in annual installments of $6.5 million beginning 1986 with final payment of $9.0 million in 2000	$100.0	—
7.45% promissory notes due 1994 in annual installments of $7.5 million commencing in 1978 with final payment of $20 million in 1994	140.0	$140.0
8.25% promissory notes due 1988 with quarterly payments averaging $2.3 million beginning 1983	52.0	52.0
Variable interest notes (1976—8.7%; 1975—7.8%) at 120% of prime with quarterly payments averaging $1.4 million	34.0	37.5
7.75% industrial development revenue bonds due 2001 in equal annual installments of $.85 million beginning 1992	8.5	—
4% convertible subordinated debentures due in 1991	11.8	34.7
4.5% subordinated debentures due in 1991	7.9	12.5
Other, 3.6% to 9.0%, due 1977 to 2001	24.6	27.5
	378.8	304.2
Less current maturities	8.4	8.6
	$370.4	$295.6

The 9.35% debentures were sold on November 7, 1975. The debentures are redeemable at the option of IMC at prices ranging from 109.35% at June 30, 1976 to 100% in 1995 and thereafter.

The 8.25% notes and variable interest notes represent borrowings under a loan agreement made by IMC Chemicals Corp., a wholly-owned subsidiary, in connection with its construction of a phosphate chemicals facility. The capital stock

of IMC Chemicals and its rights under certain contracts, including long-term sales arrangements covering a substantial portion of output of the facility, serve as collateral for the notes; IMC is obligated to purchase the notes in the event of default in payment by IMC Chemicals.

The 7.75% industrial development revenue bonds were sold in January 1976 and are limited obligations of The Industrial Development Board of the City of Bridgeport, Alabama, and are guaranteed by IMC. The bonds are redeemable at prices ranging from 103% in 1986 to 100% in 1992.

The 4% convertible subordinated debentures require annual sinking fund payments, beginning January 1, 1977, of approximately $1.9 million. IMC has purchased a total of $14.1 million principal amount of these debentures which may be applied toward any sinking fund payment. The debentures are currently convertible into common stock at $37.98 per share and are redeemable at prices ranging from 103% in 1976 to 100% in 1986 and thereafter. In 1976 and 1975, $22.9 million and $1.3 million principal amount was converted into 600,717 and 33,751 common shares, respectively.

The 4.5% subordinated debentures which prior to merger were convertible into common stock of CSC may be converted at any time for cash at the rate of $662 per $1,000 principal amount of debentures. During 1976, IMC issued its guarantee of these debentures. Annual sinking fund payments of $1 million are required in 1977 through 1990. At June 30, 1976, a total of $3.3 million has been purchased and $6.8 million has been converted, all of which may be applied toward any sinking fund payments.

Maturities of long-term debt in millions for the next five years, assuming application of purchased 4% convertible debentures and purchased and converted 4.5% debentures to the earliest sinking fund payments, are as follows: 1977—$8.4; 1978—$19.7; 1979—$15.8; 1980—$18.6; 1981—$16.1.

Certain debt agreements require maintenance of $120 million consolidated working capital and restrict the payment of dividends and purchase, retirement or redemption of capital stock. Consolidated retained earnings not restricted under these provisions amounted to $194 million at June 30, 1976.

Shareholders' Equity

At the October 1975 Annual Meeting, the shareholders approved amendments to IMC's Certificate of Incorporation (1) increasing the authorized shares of common stock from 20,000,000 to 50,000,000, (2) reducing the number of authorized shares of Series preferred stock from 1,000,000 to 192,743, and (3) creating a new class of stock, designated Second Series Preferred Stock, consisting of 3,000,000 shares with a $1.00 par value which would be subordinate to the cumulative preferred stock and existing $100 par value Series preferred stock; no such shares have been issued.

The $100 par value Series preferred stock is currently convertible into common stock at $33.24 per share and redeemable at $103 per share, the redemption price being reduced $.50 per share annually to $100 par value. Dividends of $5 per share on Series preferred stock and $4 per share on 4% preferred were paid in 1976 and 1975.

At June 30, 1976, common shares were reserved as follows:

Conversion of 4% debentures	311,137
Conversion of Series preferred stock	361,010
Issuance under stock option plans	442,354
Performance share plans	98,832
	1,213,333

Pension Plans

Pension expense was $5.4 million for 1976 ($2.2 million for 1975), including amortization of unfunded prior service costs. The actuarially computed value of vested benefits at June 30, 1976 (determined generally as of the preceding July 1) exceeded the total year-end market value of pension funds and balance sheet accruals for certain of the plans by $7.6 million. The unfunded prior service cost under the plans approximated $33.0 million at June 30, 1976. Benefits under certain of the pension plans were increased in 1976. Other changes were made to bring the plans in compliance with the Employee Retirement Income Security Act of 1974. These changes increased pension expense $2.0 million in 1976.

Stock Options

Under a qualified stock option plan, which was adopted in 1964 and expired in September 1973, options have been granted to officers and key employees to purchase common stock at prices not less than 100% of market price at date of grant. These options are exercisable over five years beginning one year after date of grant.

A non-qualified stock option plan adopted in 1973 provides for granting options to purchase up to 400,000 shares of common stock at prices not less than 100% of market price at date of grant. These options are exercisable over ten years beginning one year after date of grant and limited to 50% during the second year. A total of 217,641 shares were granted under this plan through June 30, 1976.

Information on options for 1976 and 1975 follows:

Number of Shares	1976	1975
Outstanding at beginning of year (at prices ranging from $11 to $46)	374,553	456,460
Granted	1,000	64,957*
Cancelled	6,266	9,483
Exercised	119,291	137,381
Outstanding at end of year (at prices ranging from $11 to $46)	249,996	374,553
At June 30:		
Exercisable	190,188	176,208
Reserved for future option grants	192,358	188,025

*Including 47,625 shares substituted for options previously granted by Commercial Solvents Corporation.

Performance share plans adopted in July 1973 and June 1974 which were amended in June 1975 and a plan adopted in July 1975 provide for awarding to corporate officers and key employees common treasury shares, or cash equivalent, contingent upon achievement of specified earnings. A total of 96,522 common share awards are outstanding and vested under the 1973 and 1974 plans, which are now terminated. A total of 2,310 common shares may be issued under the 1975 plan through June 30, 1976.

Saskatchewan Legal Matters

In November 1975, the Saskatchewan government announced its intention to acquire part or all of the assets of the potash industry in Saskatchewan with an initial goal of ownership of at least one-half of the potash production capacity of the province. The provincial legislature enacted a statute in January 1976 which authorizes the government to acquire by expropriation any potash assets in Saskatchewan. Subsequently, the Saskatchewan Premier announced his intention to achieve the acquisition goals by negotiation rather than expropriation, where possible, and, according to press reports, the government has discussed with one or more other companies their possible acquisition. The statute provides that in the event of expropriation and if the government and the company affected fail to agree on price, the purchase price will be determined by an arbitration board whose decision could be appealed to the courts by either party. At the option of the provincial government, up to 70% of any compensation awarded could be made in interest-bearing bonds or other evidences of indebtedness.

The potash operations of International Minerals & Chemical Corporation (Canada) Limited (IMC-Canada) accounted for about 7 percent of IMC's consolidated sales in both 1976 and 1975 and for 7 percent and 10 percent of consolidated net earnings during 1976 and 1975, respectively. Its gross investment in Saskatchewan property, plant and equipment is about $185 million and IMC's management estimates that those properties, which were built before recent inflation and have recently been rehabilitated, would cost substantially in excess of this amount to duplicate.

Effective July 1, 1974, the Saskatchewan government imposed a new potash reserve tax which for fiscal 1976 and 1975 added about $28.1 million and $20.3 million, respectively, to operating costs. The potash reserve tax is not deductible on the Canadian federal tax return. In June 1975, IMC-Canada, together with ten other Saskatchewan potash companies, filed suit against the Saskatchewan provincial government attacking the validity of the potash reserve tax and seeking refund of amounts paid. Also at issue in this litigation is the validity of another Saskatchewan statute which, if a court were to hold the reserve tax invalid, would by its terms purport to prohibit recovery of taxes paid prior to such a court decision.

In October 1975, IMC-Canada and nine other Saskatchewan potash companies filed suit against the Saskatchewan government contesting the validity of the province's potash proration fee and seeking recovery of fees paid. In June 1975, IMC-Canada discontinued payment or accrual of the fee. Discontinued payments and accruals amounted to $2.9 million at June 30, 1976.

In other litigation, in which IMC-Canada was not a party, a Saskatchewan trial court held in May 1975 that the Saskatchewan potash production proration program was unconstitutional. This decision has been appealed by the government of Saskatche-

wan. Under the program, which was instituted in 1970, production of Saskatchewan potash has been allocated by the Saskatchewan government among the various producers. Inasmuch as the Saskatchewan government has more recently granted licenses permitting each plant to operate at design capacity, this litigation is not expected to have any significant impact on IMC-Canada's production of potash over the near term.

In May 1976, IMC-Canada, together with eight other Saskatchewan potash producers, filed suit against the Saskatchewan government alleging breach of royalty contracts and seeking a determination that the potash proration fee and the potash reserve tax violated those contracts. The IMC-Canada contract fixed until 1981 such royalties on production from properties leased from the government and provided that such royalties would be in lieu of all other taxes on production. In this lawsuit, the companies seek a refund of proration fees and potash reserve taxes paid and seek general damages for breach of contract.

In 1976, the Saskatchewan legislature enacted amendments to the Mineral Resources Act granting the Saskatchewan Minister of Mineral Resources broad powers to control production of potash and other minerals, including the power to grant production licenses on terms and conditions he deems appropriate and to cancel a production license if the terms and conditions are not met. The amendments purport to be retroactive and also ratify and confirm the potash production regulations retroactively. IMC is unable at this time to determine what effect, if any, this legislation will have on the litigation (noted above) now pending in the Saskatchewan appellate court with respect to the Saskatchewan potash production proration program. However, IMC does not believe that this legislation should have any significant impact on its Saskatchewan potash operations.

Antitrust Proceedings

In June 1976, a federal grand jury returned an indictment against IMC and several other producers of potash. The indictment charges the companies with a misdemeanor under the Sherman Antitrust Act and alleges that the defendants, and others unnamed, during the period 1969 until some time prior to December 1974, conspired to restrict the amount of potash produced in the United States, to stabilize and raise the prices thereof, and to restrict exports and imports. In July 1976, IMC and the other defendants entered pleas of not guilty to the charges. On the same date that the indictment was returned, the federal government filed a companion civil action setting forth essentially the same allegations and seeking an injunction to restrain the allegedly illegal acts together with other relief. IMC has filed an answer in this civil action denying the government's allegations. Subsequent to the filing of these actions by the federal government, several private treble damage class actions were filed against IMC and the other defendants. These suits involve allegations substantially similar to those involved in the federal government actions. The plantiffs seek injunctive relief and judgments in an amount equal to three times an unspecified amount of damages they allegedly have incurred. All of these suits purport to represent broad classes of purchasers of potash. Answers denying the substantive allegations in each of these actions have been or will be filed. The criminal and civil actions are in very preliminary stages and their ultimate outcome cannot be predicted.

The Canadian government has charged Northwest Nitro-Chemicals Ltd. (Northwest), a Canadian subsidiary acquired in the merger of Commercial Solvents Corporation, together with five other fertilizer manufacturers, with conspiring to restrict competition of the fertilizer industry in Canada. Northwest withdrew from the fertilizer business late in calendar 1973. Preliminary hearings of the charge will be held early in August 1976.

Grand jury investigations of the phosphate and nitrogen industries, initiated in 1975, continue to be conducted by the Antitrust Division of the U. S. Department of Justice. IMC, among others, has produced documents for the grand juries, and is in the process of complying with further subpoenas for documents.

Commitments

Major lease commitments covering mineral properties, oil and gas provide for the greater of minimum royalties, rentals, or royalties based on production. Minimum annual payments for each of the next five years under those leases range from $3.3 million to $3.4 million.

Rent expense in 1976 and 1975, respectively, excluding mineral property rents, net of credits of $2.4 million and $2.8 million in 1976 and 1975, respectively, was $14.2 million and $7.7 million, including contingent rent of $3.8 million and $.8 million.

Rental commitments at June 30, 1976 under leases with a remaining noncancellable period exceeding one year are set forth

below. Railroad car rentals have been reduced for estimated mileage credits ranging from \$2.3 million in fiscal 1977 to \$1.6 million in fiscal 1981.

Years ended June 30 (In millions)	Railroad Cars	Other
1977	\$3.4	\$6.8
1978	3.1	6.3
1979	2.6	5.2
1980	2.3	3.7
1981	1.9	3.1
1982-1986	6.8	7.1
1987-1996	3.5	2.4

Certain of the leases referred to above are considered to be financing leases. If these leases were capitalized, the pro forma effect on net earnings would be less than 3% of average net earnings for the three most recent fiscal years.

IMC-Canada is committed under a service agreement with a subsidiary of AMAX Inc. to produce annually from mineral reserves sold in 1971 specified quantities of potash for a fixed fee. The initial term of the agreement which expires in 1981 is renewable at the option of the buyer for six additional five-year periods. The agreement may be cancelled on retransfer of ownership of the reserves. The specified quantities may increase from approximately 460,000 tons in fiscal 1976 to a maximum of 1 million tons annually over the next two fiscal years and may further increase by 12½% of any increase in total design capacity of the mines.

At June 30, 1976, IMC and certain consolidated subsidiaries have guaranteed \$5.5 million indebtedness of others.

A subsidiary is committed to pay minimum annual charter fees ranging from \$6.0 million in 1977 to \$1.6 million in 1981 (subject to escalation after 1976). A portion of such fees may be applied to the purchase of a vessel for \$8.0 million.

A customer of the new phosphate chemicals facility has a ninety-day option, exercisable in 1980, to purchase a 19.8% interest in the facility, subject to amendment of the loan agreement and related instruments if required.

In 1976, IMC granted to the other owners a three-year option on its 49% interest in a French holding company. The option price approximates the net book value of that investment.

The majority of IMC's phosphate rock production sold domestically is sold under long-term contracts at specified prices, which generally provide for price escalations based on certain cost increases.

Commitments for construction of an ammonia plant and a ferrosilicon furnace totaled \$39 million at June 30, 1976. Preliminary work has also begun on the construction of an animal feed phosphate facility whose cost is estimated to be \$36 million.

Report of Independent Public Accountants

To the Shareholders and Directors of
International Minerals & Chemical Corporation

We have examined the accompanying consolidated balance sheet of International Minerals & Chemical Corporation at June 30, 1976 and 1975 and the related consolidated statements of earnings, shareholders' equity and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As discussed in the notes to consolidated financial statments under Antitrust Proceedings, the Corporation is involved in litigation alleging violations of antitrust laws, the outcome of which cannot presently be determined. No provision has been made in the consolidated financial statements for liabilities, if any, that may result from the resolution of this litigation.

In our opinion, subject to the effects, if any, on the consolidated financial statements of the resolution of the litigation referred to in the preceding paragraph, the statements mentioned above present fairly the consolidated financial position of International Minerals & Chemical Corporation at June 30, 1976 and 1975 and the consolidated results of operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company
One IBM Plaza Chicago, Illinois 60611
August 3, 1976

Directors

Chester Baylis, Jr.
Director,
Bankers Trust New York Corporation

†Edward F. Blettner
Honorary Director,
The First National Bank of Chicago

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Executive Vice President, IMC

*James W. Glanville
Managing Director,
Lehman Brothers, Incorporated,
New York

George D. Kennedy
Executive Vice President, IMC

†Richard A. Lenon
President and Chief Executive Officer,
IMC

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Executive Vice President, IMC

*Henry W. Meers
Vice Chairman,
White, Weld & Co., Incorporated,
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Ridgeland, South Carolina

*Morton Moskin
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President and Chairman of the Board,
DeKalb AgResearch, Incorporated,
DeKalb, Illinois

*John T. Ryan, Jr.
Chairman of the Board,
Mine Safety Appliances Company,
Pittsburgh, Pennsylvania

Vernon F. Taylor, Jr.
President and Director,
Westhoma Oil Company
and Peerless Incorporated,
Denver, Colorado

Robert C. Wheeler
Senior Vice President, IMC

*Board of Directors Audit Committee;
Mr. Ryan is Committee Chairman.

†Board of Directors Executive Committee;
Mr. Purcell is Committee Chairman.

Officers

Richard A. Lenon
President and Chief Executive Officer

Anthony E. Cascino
Executive Vice President,
Agriculture

George D. Kennedy
Executive Vice President,
Industry and Business Development

William S. Leonhardt
Executive Vice President;
Chairman, IMC Chemical Group, Inc.

Judson H. Drewry
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Agricultural Operations

Marvin B. Gillis
Senior Vice President;
President, IMC Chemical Group, Inc.

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Agricultural Marketing

Julian M. Sobin
Senior Vice President;
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IMC Chemical Group, Inc.

Robert C. Wheeler
Senior Vice President,
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Vice President,
Domestic Agricultural Marketing

James T. Gibson, Jr.
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Administration

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Vice President;
Executive Vice President,
IMC Industry Group

Donald E. Phillips
Vice President,
Rainbow

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Vice President;
General Manager,
Industrial and Organic Chemicals,
IMC Chemical Group, Inc.

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Vice President and Controller

John R. Taylor
Vice President,
Secretary, and General Counsel

Billie B. Turner
Vice President,
Florida Operations

Alan B. Wagner
Vice President;
Vice President,
Administration,
IMC Industry Group

Darrell L. Feaker
Treasurer

Corporate Staff

Harry H. Book
Assistant Secretary

Nicolaus Bruns, Jr.
Assistant Secretary and Assistant
General Counsel

Donald G. Brady
Assistant Controller

Thomas Pescod
Assistant Controller

Donald L. Simandl
Assistant Controller

John E. Galvin
Assistant Treasurer

Donald L. Everhart
Geology and Exploration

Paul Faberson
Public Relations
and Marketing Services

Jack W. Hicks
Government Affairs

Neal Schenet
Corporate Social Affairs

John M. Stapleton
Organization and Personnel

International Minerals & Chemical Corporation (Canada) Limited

Mervyn A. Upham
Chairman;
President,
IMC Resource Development

William J. Huston
President;
General Manager,
Esterhazy Potash Operations

Robert D. Lindberg
Operations,
IMC Resource Development

AMERICAN REVOLUTION BICENTENNIAL 1776-1976
CELEBRATE AMERICA

Printed in U.S.A.

Corporate Data

Headquarters Office
IMC Plaza
Libertyville, Illinois 60048
(312-362-8100)

IMC General Office
501 East Lange Street
Mundelein, Illinois 60060
(312-566-2600)

Eastern Headquarters
245 Park Avenue
New York, New York 10017
(212-661-4300)

Independent Public Accountants
Arthur Young & Company
Chicago, Illinois

Counsel
White & Case
New York, New York

Stock Exchanges
New York Stock Exchange
Midwest Stock Exchange
Pacific Stock Exchange
Paris Stock Exchange

Ticker Symbol: IGL

Transfer Agents
The First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670

Bank of America National Trust &
Savings Association
Box 37000
San Francisco, California 94137

Registrars
The First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670

Bank of America National Trust &
Savings Association
Box 37000
San Francisco, California 94137

Trustees
(Subordinated Convertible Debentures)
The First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670

(9.35 Percent Debentures)
Morgan Guaranty Trust Company
of New York
23 Wall Street
New York, New York 10015

Paying Agent
(Subordinated Convertible and 9.35 Percent Debentures)
The First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670

Principal Subsidiaries

International Minerals & Chemical
Corporation (Canada) Limited
55 Yonge Street
Toronto, Ontario, Canada M5E1J4
(416-868-1446)

Continental Ore Corporation
245 Park Avenue
New York, New York 10017
(212-661-4300)

IMC Chemicals Corp.
Post Office Box 1835
Mulberry, Florida 33860
(813-428-2531)

IMC Chemical Group, Inc.
IMC Plaza
Libertyville, Illinois 60048
(312-362-8100)

IMC Development Corporation
201 Christina Boulevard
Lakeland, Florida 33803
(813-646-5061)

IMC Exploration Company
3450 One Allen Center
Houston, Texas 77002
(713-658-1856)

International
Minerals &
Chemical
Corporation

IMC Plaza
Libertyville
Illinois
60048